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# Nation's Business

USEFUL LOOK AHEAD

MARCH 1959

47/3

OUTLOOK FOR

# NEW TAX SYSTEM

PAGE 70

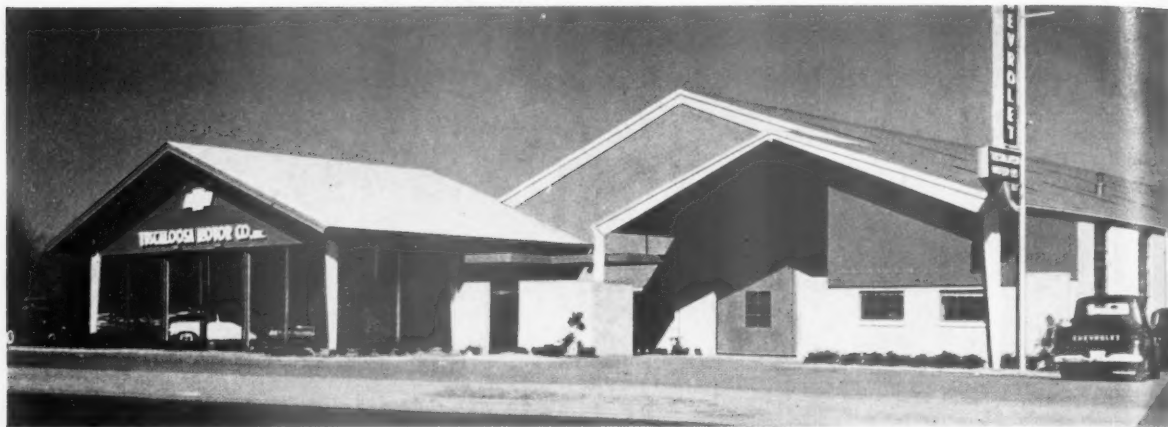


Unions get set for more strikes **PAGE 54**

How to teach better selling **PAGE 36**

Best job insurance: Profits **PAGE 31**

We're widening our lead over Russia **PAGE 34**



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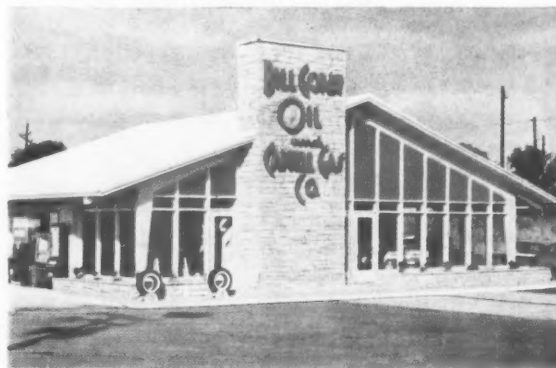
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*More than 250,000 are Bell telephone employees.*

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A.T.&T. share owners, and the owners of A.T.&T. bonds, are the financial foundation of our ability to serve. For without the money they have put in the business you



**OWNERSHIP IS WIDESPREAD.** A.T.&T. share owners live in cities, towns and on farms, in 22,000 communities throughout the country. About 450,000 of the shares are in two names, generally husband and wife. Many hundreds of hospitals, churches, libraries and charitable organizations are among the holders of A.T.&T. stock and bonds.

would not have the quality and quantity of telephone service you enjoy today. Nor would there be work and wages for 735,000 employees.

Obviously, investors will continue to supply capital in the amounts required for present and future needs only if they can expect the Bell System to earn a return on the money they invest that is reasonable in comparison with the earnings rates of other companies and industries.

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ing ahead, begins with good earnings and our faith that Americans want good and improving service at prices which allow a fair profit.

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**BELL TELEPHONE SYSTEM**



# Nation's Business

March 1959 Vol. 47 No. 3

Published by the Chamber of Commerce of the United States  
Washington, D.C.

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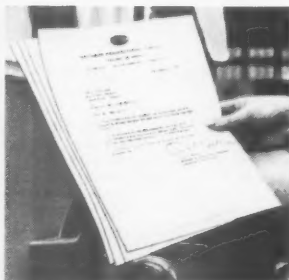
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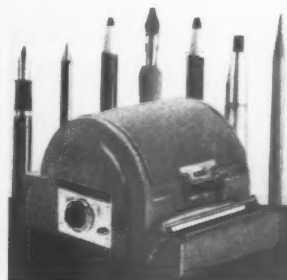
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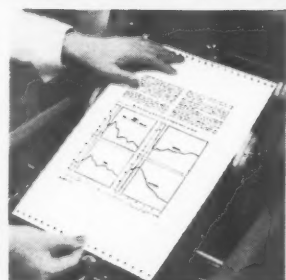
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# management's WASHINGTON LETTER

►ADMINISTRATION CHIEFS quarrel with one another about spending your tax money.

You don't hear much about inside disputes (usually settled behind closed doors).

But you are likely to hear about them this year--more than most years.

Reason:

There's broader disagreement on some issues than public so far has been told.

Advocates of bigger spending are looking for ways to get views publicized without appearing out of step with President's order to hold spending line.

Importance is:

Government spending could easily go over President's estimates, throw budget balance out the window.

►SOME GOVERNMENT OFFICIALS think revenue estimate--\$77.1 billion--will be exceeded in year ahead.

Remember:

What high government people think constitutes an important force in shaping ultimate spending outcome.

Meaning is:

Some aren't worried about small increases in spending--as they might be if they thought revenue would fall short.

One official told NATION'S BUSINESS:

"Estimate on revenue side probably is a little low.

"Therefore, a little rise on spending side won't upset balance."

►THIN BUDGET BALANCE worries other top officials.

Here's why:

Balance (with \$70 million surplus) is so close it would be wiped out if spending rises to \$1.00091 for each \$1.00000 of planned expenditures.

Consider interest on federal debt.

It's expected to go up \$495 million, or 6.51 per cent, in year to come.

(Total interest: \$8.1 billion.)

Boost interest by one fortieth of one per cent--there goes budget balance.

►NATION'S BUSINESS checked with others, asked this question:

Will revenue reach \$77.1 billion?

Best guess now is that it will.

But there's room for some doubt.

Year could finish (June 30, 1960) with \$75 billion, maybe \$76 billion.

Less likely, Washington feels at this time, is possibility that revenue will exceed \$77 billion.

In either case, it will be highest tax revenue ever collected in one year.

►HERE'S HOW ADMINISTRATION decided on \$77.1 billion revenue figure:

Government economists worked out models of probabilities.

They found low estimate at \$74 billion. High was \$77.1 billion.

Optimistic President picked the top figure--personally confident it will be reached.

►IMPORTANT THING IS:

Government economy drive is under way. Policy is to hold spending line.

Insiders say President is worked up, will veto what he thinks isn't good for the country--just as he says.

Will he stay worked up long enough to veto all the spending bills that will come next summer?

Close advisers say he will.

►ECONOMIC FORECAST IS SHOWN by government estimates of tax revenue for year ahead.

Assumptions are:

That '59 personal income will rise to \$375 billion average, will bring \$40.7 billion to U. S. Treasury.

That corporation profits will soar to \$47 billion, will produce \$21.5 billion in taxes for Uncle Sam.

That business volume will expand, bring in \$8.9 billion excise taxes, that other receipts will total \$6 billion.

On balance:

Government fiscal planners expect gross worth of all the nation's goods, services to reach annual rate of \$480 billion (including income) by late fall.

►NEXT 6 MONTHS could be your best time to borrow--

If you expect to borrow in '59.

Your banker, financial adviser can help you analyze prospects for the area where you do business.

For nation as a whole--as viewed by financial specialists in Washington--you can expect tighter money ahead.

That'll boost cost of borrowing.

Forces pushing in that direction are

these: Rapid bounce-back from last year's downturn will go on in months ahead.

By year's end, gross national product will climb \$35 billion, maybe more.

Increasing demand for funds to finance high rate of economic growth will bring new Federal Reserve actions to restrict money supply.

Informed Washington guess is that cost of money will--by year's end--become more important in consideration of business expansion plans.

►WILL BUSINESS UPSWING burn out?

Not soon--unless a new record for short-lived upturns is set.

Here's why:

Average recovery period (going back 100 years) lasts 27 months.

Recovery range is most likely to be 25 to 40 months.

Measure upswing from last April.

Note: '54-'57 expansion lasted 35 months.

►GAS TAX BOOST won't pass.

That's key feeling on Capitol Hill at this time.

Administration wants 1½-cent increase to match highway trust fund income with stepped-up rate of spending.

Spending was boosted by Congress last year to combat recession.

Now government must decide how to handle rate of highway spending that exceeds highway trust fund income.

Increase Administration asks for would cover the deficit.

If gas tax isn't raised, government faces choice of chopping back spending rate or financing higher rate by appropriating extra money from general revenue funds.

Informed guess is:

What's most likely to happen is that Congress won't do anything.

This would force Administration to cut back on highway spending.

Explains one congressman:

"Then if anybody squawks we can blame the Administration for it."

►WANTED--by Uncle Sam--400,000 persons to receive \$22.3 million a month for life.

That's number of people government

can't locate who may be eligible for payments under new social security law changes voted by Congress last year.

Included are such persons as:

Dependent parents who have survived their children, disabled workers age 50 to 65, children disabled before 18.

Government will intensify search for new beneficiaries through 584 district social security offices.

►BLAME WORLD TENSION for year-after-year boosts in federal spending?

Some officials do.

Study shows what's really happening.

Fact is:

Federal expenditures for labor and welfare during 4-year period have risen 5 times faster than defense spending.

►THESE FACTS SHOW UP from government spending study:

National security 4-year spending rise is 13.5 per cent.

Nondefense outlay is up 45 per cent.

Meaning:

1. If Pentagon spending rise were equal to nondefense spending rise--

Budget this year would be \$94 billion with probable \$26 billion deficit.

(Instead of \$80.9 billion spending with \$12.9 billion deficit.)

2. If nondefense items had risen no faster than military spending--

Budget would be about \$73 billion with deficit of about \$5 billion.

Conclusion:

What these examples show is that welfare-state spending pushes budget upward at faster rate than defense spending.

►USEFUL LOOK AHEAD: Deadline for reporting to government under new Welfare-Pension Plan Disclosure Act is April 1.

For new plans, it's 90 days after your company's plan takes effect.

Some plan descriptions already are coming to Bureau of Labor Statistics.

But so far only 1,000 have been filed.

About 250,000 are expected.

Study shows about 15 per cent of reports filed omit information such as:

Notarization, signature, trust agreement setting up plan, schedule of benefits, duplicate copy, identity of plan administrator.

Annual reports on finances, operations

of welfare funds are due 120 days after the end of calendar or fiscal year.

For plans on calendar-year basis, reports on '59 activities--first year under new law--will be due May 1, 1960.

Law requires only public disclosure. Revision will be considered by this Congress.

But action isn't likely for another year. Legislators want to see how the law works out during first year.

## ►GUIDES TO COMMON SENSE Management.

That's title of a new book to be published by the editors of NATION'S BUSINESS.

Timely contents include:

What makes an executive?

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Send \$1 to NATION'S BUSINESS, Rm. 335, at 1615 H Street NW, Washington 6, D. C.

## ►HERE'S YOUR CHANCE to stay on top of current developments that will influence your business.

See:

How profits provide best job insurance, page 31.

What new inflation weapons would do to business, page 38.

How unions are getting ready for more strikes expected this year, also what you can do, page 54.

Top issue in defense debate, page 104.

Outlook for new tax system, page 70.

## ►HOT CONGRESSIONAL DEBATE on farm programs will crop up this year.

It'll come from 2 directions:

From those who want federal subsidies chopped, those who want to keep them.

Reason for mounting worry is shown by these figures:

For each dollar that farmers took in 5 years ago, Department of Agriculture spent 20 cents.

Now federal farm programs cost 53 cents for each dollar farmers receive.

To learn how farm crisis affects you, see page 84.

## ►DON'T OVERLOOK WHAT NONPRODUCT costs can do to your sales.

Production costs become less important as nonproduction costs mount.

Example:

In Alaska, with shipping costs added to price tag, even cheaper brands look expensive.

Result:

Customer buys better-grade products which satisfy needs for longer time.

## ►MUST COMPANIES doing business in other countries obey U. S. law or foreign laws when these laws conflict?

This issue is key question to be settled by court action.

Here's the story:

Canadians are charging U. S. with attempting to make American law prevail in Canada.

U. S. Justice Department has antitrust suit against 2 U. S. radio-TV manufacturers.

Allegation is that the companies use their Canadian subsidiaries to set up a patent pool in Canada aimed at restricting imports to Canada.

Canadians argue that the pool is legal under Canadian patent law and that the antitrust action is extraterritorial application of U. S. antitrust law.

Justice officials argue that guiding brains behind the patent pool are in the U. S. companies--therefore U. S. antitrust law applies.

Outcome could have important implications for U. S.-Canadian relations as well as individual companies doing business in other countries where laws conflict with U. S. laws.

## ►RUSSIA REACTS QUICKLY to U. S. gains in missile, satellite developments.

Why? Look at these facts--involving industry:

USSR is operating about 690,000 industrial establishments.

But 40 per cent of all Soviet employment is concentrated in about 500 establishments, each with 3,000 workers or more.

In America not more than 15 per cent of industrial employment is in establishments of this size.

Bunching of Soviet industrial power is major worry for Russia since U. S. would have fewer targets to hit than would Reds striking at U. S.



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# Letters from businessmen

## **Two kinds of liberals?**

We might classify liberals in two groups. First we have the amateurs who, although lacking in experience and judgment, and unable to foresee the consequences of their acts, nevertheless fancy themselves as "advanced thinkers." If allowed their way, so they think, they would soon roll back the barriers to Utopia.

In the second group we have the old professional liberal politician, glib of tongue, and by no means naive. He wins majorities by catering to minorities who seek special privileges, and by sponsoring free-spending programs which benefit only a fraction of those who have to pay for them.

A liberal is someone who never does anything for the first time or any other time unless he can get the money from a conservative to do it with.

R. E. NEWELL  
Irwin, Pa.

## **Tax reminder**

Why could not your publication promote with businessmen everywhere the following means of educating the nation's taxpayers?

Every price tag, every cash register slip, every invoice, every sales slip could carry this notation:

"Twenty-five per-cent or more of the price you pay here represents taxes to the federal government voted by your congressmen, past and present."

JACK COFFRIN  
Coffrin Studio  
Miles City, Montana

## **More on right to work**

This is in reference to your article entitled, "Right to Work: Bigger Battle Coming" (January).

Under the section, "Union financial support," you state that right-to-work statutes in Arizona, Indiana, Nevada, North Dakota, and Kansas do not include prohibitions against payment of dues or fees by nonmembers of the union (agency shop).

A four-year study of the agency shop now shows that you can add

Florida, Nebraska, South Dakota, and Texas to this list as they have no provision in their right-to-work statutes making payment of dues or fees as a condition of employment unlawful. Also, the Attorney General of North Dakota has issued an opinion that the agency shop is lawful within his state whereas a Superior Court in Arizona has ruled that the agency shop is unlawful in Arizona.

Further, the Attorney General in Nevada in 1952 issued an opinion that the agency shop was lawful within the state. However, the new Attorney General of Nevada issued another opinion in 1958 that now makes the agency shop a violation of the state right-to-work law.

NORMAN E. JONES  
President

Norman E. Jones & Associates  
South Gate, California

►This additional information appreciated.

## **Helpful**

Your article "You Can Tell Who Wants Success" in the December issue is a must for every businessman.

Being a young college graduate, I believe it will serve as a guide for my career.

THOMAS N. BATES  
Los Angeles, Calif.

## **Minority consumers**

I have just seen "Here's Look at Tomorrow's Consumer" (December, 1958).

Though I can well appreciate that the money for the merchant and the manufacturer lies in the mass market, it seems to me that the current thinking tends to overlook that segment of the population that should be of concern to at least a small group of merchants and manufacturers.

This segment is the minority that, though they may statistically fall into the typical picture as painted in your article (i.e., young married, number of children, education, income level, age, etc.) do not live in the suburbs, do not shop in shopping centers, are not do-it-yourselfers, feel no compulsion to decorate the





Photographed by Robert Yarnall Richie

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home with superfluous appliances, and do feel that being in debt or living beyond one's means IS bad.

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**When job is done**

We would like to reprint the article titled "Test Your Sense of Closure" from January 1959 in our *Mainline Management Memo*.

S. H. SMITH  
United Air Lines  
Cheyenne, Wyo.

►Permission granted.

This article sure hits the nail on the head...

H. J. BERGER  
The Great Atlantic & Pacific Tea Co.  
Belleville, N. J.

**A most interesting article...**

L. E. COX  
Manager  
Bemis Bros. Bag Co.  
Kansas City, Mo.

I think this is an article which we can use to advantage with supervisors and personnel.

RALPH J. THOMAS  
DeKalb Agricultural Association, Inc.  
Sycamore, Ill.

I found the article "Test Your Sense of Closure" to be very interesting and would like to distribute it to some of my supervisors.

J. W. COOKE  
General Electric Co.  
Bloomington, Ill.

**Economy for tomorrow**

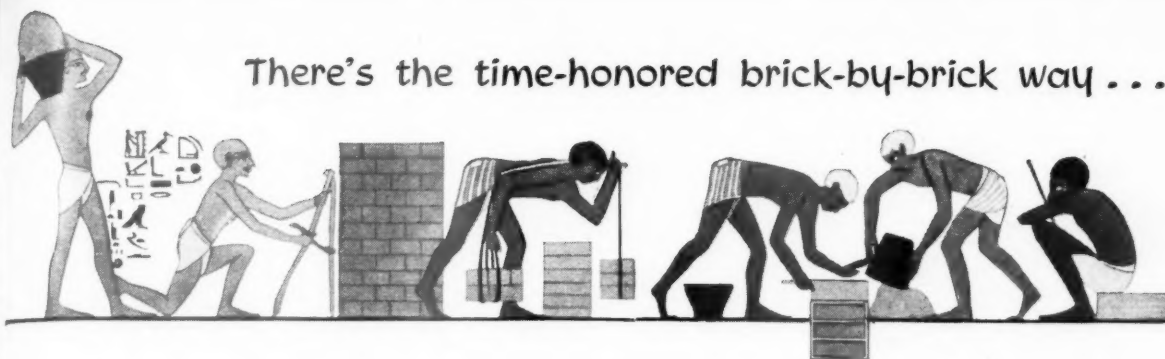
Too much dependence is placed on continued population growth at its present pace.

Such growth can make as many problems as it solves.

Nor is there any convincing assurance that satisfactory performance for the future can be based on a setup nursemaided by supersalesmen, burdened by heavy borrowing from the future, marked by deficit financing and sustained by artificial respiration. So-called built-in stabilizers consist mostly in transferring the economic deficiency load onto the government. Few mention our responsibility for putting our own economic house in order, for organizing the self-discipline of workers, management and others concerned in the mobilization of a more realistic performance.

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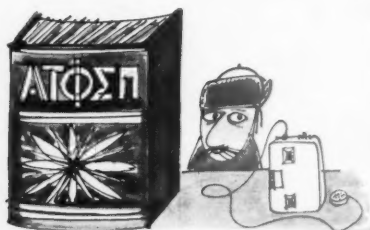


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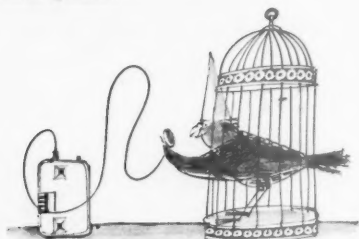
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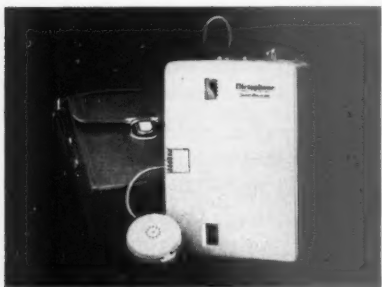
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**WATCH  
THIS ISSUE**

## Unions push federal jobless pay

### Congress debates law to restrict states, boost benefits and costs

UNEMPLOYMENT compensation is one of the liveliest issues in this session of Congress. It is also being studied on a less controversial basis by most state legislatures.

In Washington, the issue is the basic one:

Should the federal government dictate minimum standards which the states would have to meet with respect to amount and duration of benefit payments to the unemployed?

This would be a giant step toward federalization and eventual destruction of the state-federal relationship that has worked for more than 20 years.

In the states, the legislatures are concerned with familiar and often adopted proposals to increase the benefits amounts, pay them over a longer period and extend them to employees of smaller businesses.

On their own, the states have increased average weekly benefits from \$10.94 in 1938, the first year they were paid, to \$30.58 last year.

They have increased the average time idle workers may draw benefits from 13.5 to 23.5 weeks.

They have broadened coverage to the point where federal action extending benefits to all nonfarm business employing even one person would add fewer than two million employees to the approximately 40 million now covered.

The drive for federalization of unemployment compensation is being pushed by organized labor as the easiest and surest way of getting more benefits and increasing union influence over the program.

Progress toward this goal is being attempted in the move toward establishing federal minimum standards for states to meet. The vehicle is a bill by Sen. John F. Kennedy,

Democrat of Massachusetts, chairman of the Senate labor subcommittee. Thirty-one senators joined him in introducing it. A companion bill introduced in the House by Rep. Frank M. Karsten, Democrat of Missouri, is supported by 125 House members. Major provisions of the Kennedy bill would:

- Require states to establish a minimum benefit of not less than 50 per cent of a worker's weekly pay and not less than two thirds the state's average weekly pay. The unemployed worker would receive the lesser of the two benefits set by the state equal to or above these minimums.

- Require states to pay benefits for at least 39 weeks to all employees who are entitled to collect. Reduced duration would not be allowed, for example, for those with less work experience.

- Require states to extend coverage to every business employing even one worker, but continue exemption for domestics and farm employment.

Senator Kennedy said his bill, if passed, would "cushion any recession, alleviate individual hardship, and speed national recovery."

President Eisenhower and others see the desirability of higher and more extended benefits, but prefer to leave the decision to state officials who are in a better position to judge the need and impact. The President has urged the states to establish benefits of at least half a worker's regular earnings and to pay them for 26 weeks if necessary, but he has not suggested that the federal government should dictate those standards.

Prof. Edison L. Bowers of Ohio





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## JOBLESS PAY

*continued*

State University, chairman of the Ohio State Advisory Council on Unemployment Compensation, warns of several undesirable consequences likely to result from federal intervention.

"Adoption by Congress of minimum benefit standards, enforceable by federal financial controls, would doubtless sound the death knell for current remnants of state administration," he says.

"A federal system would cost more, both in overhead and benefit expenditures," Professor Bowers told a conference of employment service personnel. "Some believe it would be less flexible and offer less room for creative ability and initiative. Programs in the poorest states might be improved and those in the best states retarded."

The original purpose of the federal law was solely to persuade the states to enact unemployment compensation laws, Professor Bowers concluded, and "that original purpose has been accomplished."

The federal law, passed in 1935 as part of the Social Security Act, simply imposed on employers a federal unemployment tax of three per cent of payroll, with the proviso that 90 per cent of the tax (or 2.7 per cent of payroll) would be credited to states which set up approved unemployment compensation programs and would be used to pay benefits. The federal government retained the three tenths per cent for administrative costs.

Naturally each of the 51 states and territories set up programs. Otherwise they could recover none of the three per cent tax the employers sent to Washington.

To be approved a state program has to meet a few federal standards with respect to administration and coverage but, until now, the states themselves determined when a worker is eligible to receive unemployment compensation, how much and for how long.

States also allow the employer's tax rate to fluctuate on the basis of his record for keeping jobs steady—called experience rating—and the condition of the state's reserve fund. As a result, in most states employers pay less than 2.7 per cent to the state. Some employers with excellent records pay only the three tenths per cent federal share.

The national average rate collected by the states last year was 1.4 per cent. States' averages ranged from



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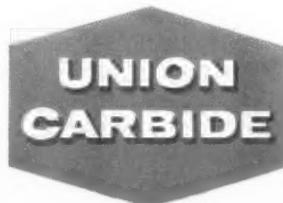
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## JOBLESS PAY

continued

four tenths per cent in Virginia to the full 2.7 per cent in Alaska and Rhode Island.

The proposed federal standards would threaten this incentive for employers to regularize their employment.

The states' right and ability to reduce tax rates would be restricted.

The proposed federal minimum benefits are higher than those now existing in any state. They would require imposition of the full allowable tax rate. The AFL-CIO has attacked rate fluctuation based on experience rating as incompatible with the aims of unemployment compensation and would like to see all employers pay a flat rate.

Major business groups view federal minimum standards as putting the states in a straitjacket, reducing their ability to improve their programs through experiment to correct mistakes, and to make adjustments dictated by local economic conditions.

This is what has happened under state control:

Since 1953, 45 states have increased benefits one or more times.

Thirty states, covering more than 90 per cent of employees eligible for unemployment compensation, pay weekly benefits of \$30 or more.

Since 1954, benefits have increased faster than wages and the cost of living. Benefits have risen 23.6 per cent, wages of covered workers, 15 per cent, and living costs, nine per cent.

More than 75 per cent of covered workers are in states which pay benefits for 26 weeks or more. In the beginning the top limit in 42 states was 16 weeks.

Notwithstanding isolated examples, most of those drawing benefits are getting at least half their regular wages. In New York, for example, three fourths are getting that much although the maximum benefit is slightly less than half the state average pay.

Union leaders favor increased unemployment compensation benefits through Congress—where they can concentrate pressure—as preferable to extension of the Temporary Unemployment Compensation Act which expires on April 1. Passed last year, this law provides tax-free loans to states as a recession measure to aid those that wish to extend the time limit on benefit programs. President Eisenhower has said he opposes an extension. **END**

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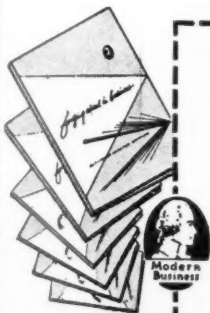
These are the men who are unknowingly headed for the frustrations and the disappointments of mediocrity. They'll go part way up the ladder and down again by the time they're fifty years old. They'll be executive material in their twenties and thirties—and clerks in their fifties. They'll have high hopes for themselves and their families while they're young; but only struggling, skimping and regret later on when their earning power should be at its height.

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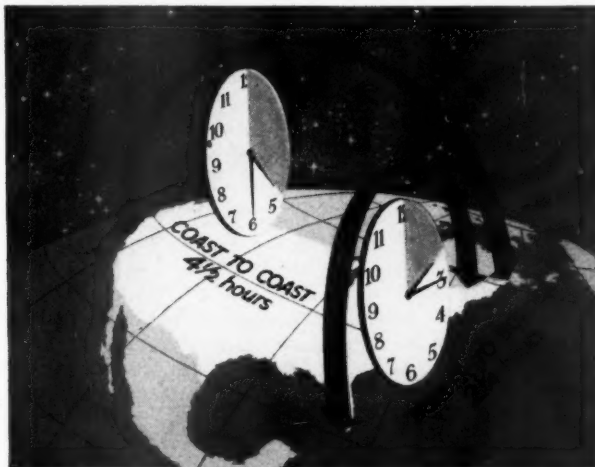
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# The state of the nation

## Austerity for all—with exceptions

SECRETARY OF STATE DULLES, in a report made to the Senate Foreign Relations Committee, before his hospitalization, gave warning that strained relations with the communist bloc may continue for "decades and perhaps even generations." The costs for Americans, he said, will demand "austerity and sacrifice on the part of all."

President Eisenhower has further made plain that he thinks this austerity should begin in Washington. Pleading for his precariously balanced budget, he told the Congress there should be constant review of all governmental activities and subsequent pruning of all wasteful or superfluous expenditure. "Changing circumstances," said Mr. Eisenhower, "offer opportunities for economies in a variety of existing federal programs."

It would be helpful if the responsible executive officers, in addition to preaching austerity to those already hard put to pay their taxes, would consider certain clear opportunities for economies under their own personal control. A case in point is the so-called "Cultural Exchange Program" of the Department of State.

• • •

The connection of many of these exchanges with any form of culture other than physical is hard to detect. For instance, American taxpayers are, under this program, currently paying the expenses of a Massachusetts swimming coach who is touring Latin America, and those of a Connecticut track coach who has been sent to Africa. As a result of his efforts, says the State Department in an official press release, "Athletes in Libya and Ethiopia will be learning American track and field techniques." Doubtless true, but scarcely an illustration of "austerity and sacrifice."

Few, if any, forms of sport are slighted by this program, though for some unexplained reason professionals from New England seem to be currently

most favored. Thus "two masters of the art of basketball"—the State Department's definition—will this spring visit France and some of its restive African colonies to "conduct basketball clinics." These "brilliant playmakers" are from the Boston Celtics and were tested for cultural exchange by an earlier tour of the Middle East in 1957. The State Department has graciously arranged the coming trip so as not to interfere with their professional schedule here at home.

The cultural exchange program earns at least the second of those adjectives by also bringing foreign athletes to this country, often in bunches. A 12-man basketball team from Ecuador last month completed a merry whirl which took the group by bus from Jacksonville, to Niagara Falls, to Baton Rouge and way stations including Washington and little old New York. They were accompanied,

By Felix Morley



FRED J. MAROON

## TRENDS continued

for good measure, "by an adult leader, a coach, a physician and a representative of the Ecuadorian Provincial Sports League," all guests of our austerity-conscious government.

In addition to this endeavor for "mutual understanding," the Department of State also sponsors an "International Educational Exchange Service" which seemingly takes charge of the baseball players, a game thus defined as more educational though less cultural than basketball or track. This agency, for instance, recently dispatched that famous old pitcher, "Lefty" Gomez, together with a National League umpire to call the strikes, to Havana and other Caribbean cities. The official purpose was "to promote increased understanding" in "baseball-conscious countries." Unfortunately, due to one of those circumstances for which nobody is really to blame, this particular diplomatic effort found Cuban youth more Castro than baseball conscious.

The International Educational Exchange Service, however, concentrates not so much on "brilliant playmakers" as on newspaper people, evidently also regarded as more educated than cultured. Thus, as the New Year dawned, the Department of State announced: "A young Jamaican journalist will have the opportunity to participate in the life of an American small town during the next two months as a staff member of the Troy, Ohio, *Daily News*."

This fortunate young person turns out to be Miss Barbara Joy Goodison, a feature writer for the Kingston (Jamaica) *Daily Gleaner* and editor of the weekly *Children's Own*. "After her two-month stint with the *Daily News*"—to quote the official press release again—Barbara Joy "will spend one month traveling to different sections of the United States." On this pleasant gleaning, after two months of Trojan toil, Miss Goodison is presumably now engaged.

This ratio of one month of subsidized sight-seeing for two of actual work is not exactly austere. It is, however, standard for the youngsters now being brought here from all over by the not-too-economy-conscious Department of State. Thus Mr. Eric Peereboom, of Amsterdam, is assured of a "30-day tour" following his current two months of employment by the Trenton (N. J.) *Times*. In this case the State Department daringly predicts that the young visitor will "eventually become" editor of his Netherlands newspaper.

Only a part of the expenses of these visiting journalists is paid by Uncle Sam. The sponsoring

newspaper provides the temporary job and the government covers the travel costs. But these are sometimes considerable. A newspaperman from Yokohama, Mr. Kikuo Shibuzaki, is now rounding out a three-month assignment on the Quincy (Mass.) *Patriot Ledger*.

The State Department describes this Japanese visitor as a specialist "in news about the Yokohama water front," which could be useful in Quincy since it also has a water front, though on a different ocean.

The foreign journalists brought to this country by the Department of State do not merely write copy. They also sometimes provide it. Mr. George Anastassopoulos, of the Athens (Greece) *Kathimerini* is an illustration. The Washington *Daily News* not long since extracted a sprightly interview from Mr. Anastassopoulos "on the delicate subject of American girls," to whom he has naturally given attention as part of his mission "to foster greater mutual understanding."

Mr. A. finds our college girls (of whom he has seen the most) "very good looking—and their bodies are well proportioned." But "with Europeans they are worried as much as careful." Of course this might be because of the official warnings about austerity, though Mr. A. from Athens doesn't draw that conclusion. What he does conclude about the American girl is that "there is a point at which she stops."

Would that the same could be said for this particular program!

All of this amiable nonsense of course comes under the foreign aid program, subheading in the current budget; "Department of State, Exchange of Persons." It should be said that other professions, beside athletes and newspapermen, are represented among the free riders, though the two types singled out certainly seem to predominate. The requested appropriation to continue the undertaking is not large as these things go—only \$24 million and therefore actually a million less than was obtained for this particular boondoggle last year. In this year's budget message the President made no comment on the item, which is not to be confused with the important work of the U. S. Information Agency.

Yet it would seem that if our chief administrative officers are really concerned about economy, here is an example of conspicuous waste in which Congress can, with no reservations, help them out. It is a pleasant but wholly improper dissipation of public funds which serves to encourage far more dangerous extravagance right down the line. And \$24 million, after all, is the equivalent of a levy of a little more than \$10 on every man, woman and child resident in the state of Connecticut.



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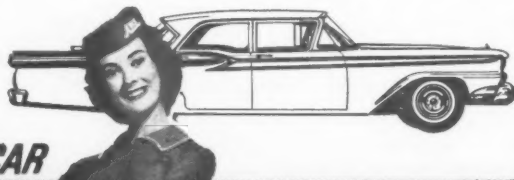
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# Washington mood

### Democrats need a magic man; G.O.P. needs voters

THE REPUBLICANS, with their thoughts on 1960, have been taking a hard look at their Grand Old Party. They are not happy at what they see. In the words of Republican National Chairman Meade Alcorn, they face some "frightening figures."

They have never liked to acknowledge it, at least publicly, but now leaders, including Chairman Alcorn, openly confess that President Eisenhower's victories in 1952 and 1956 were not victories for the Republican Party at all, but were really personal triumphs for a war hero.

"Despite the two great presidential sweeps of 1952 and 1956," says Mr. Alcorn, "the Republican Party has not won what could properly be called a national party victory since 1946 when the had-enough temper of the country touched off a landslide."

Well, where does that leave the G.O.P. with respect to the 1960 election?

On the basis of what was said at a meeting of the Republican National Committee the party can hold on to the White House in next year's election in only two ways:

1. The Republicans will have to come up with a presidential nominee in 1960 who, like General Eisenhower, is stronger than the party, or
2. The party will have to become much stronger with rank-and-file Americans than it now appears to be.

• • •

According to a Gallup Poll, if all American voters—including self-styled independents—now were asked to register as party members, 54 per cent would line up as Democrats and only 36 per cent as Republicans. (Ten per cent said they didn't know what they would do).

From all this, it would seem that the Republican outlook is rather bleak.

But if this is so, why then are the Democrats



By Edward T. Folliard

so reserved, so subdued? Why are they not making bold and sweeping claims in advance of the 1960 election? In view of all the melancholy talk coming from the Republicans, the Democrats ought to be exultant. They ought to be making plans now for the inauguration of a Democratic President on Jan. 20, 1961.

The fact is, though, that they are not at all sure of capturing the White House next year, despite the overwhelming evidence that theirs is the stronger party. There are two reasons for their wait-and-see attitude.

First, no man in the big field of Democratic presidential possibilities arouses any great and widespread enthusiasm in the party—none seems to possess in large measure what the professionals call "magic." Virtually every man who is being

## TRENDS continued

boomed has some flaw, some weakness that produces a chill somewhere in the party.

Second, influential Democrats have concluded that a familiar American political pattern has been shattered. What they mean is this: The voters no longer seem to think it important to have a President and a Congress of the same political faith at the same time, as they have demonstrated in three national elections in a row, beginning in 1954.

Accordingly, these Democrats believe that a presidential election has now become pretty much a personality contest, with victory going to the candidate who is most attractive, most appealing.

• • •

Now comes the biggest question of all for the Republicans as they prepare for next year: Who can do what Dwight D. Eisenhower did in 1952 and 1956 in attracting millions of Democrats and independents to the Republican banner?

In a talk at the National Press Club, President Eisenhower said that he could, but wouldn't, write out a list of "half a dozen, or ten, or maybe a dozen fine, virile men in the Republican Party whom I would gladly support (for the nomination)."

The fact remains that only two men are talked about seriously in Washington when 1960 is mentioned—Vice President Richard M. Nixon and Gov. Nelson A. Rockefeller of New York.

In sharp contrast, ten or more Democrats are being touted for their party's nomination. At this time, party insiders can do no better than say "Search me" when asked which one they think will emerge as the winner.

Right now the two parties are not so much concerned about candidates as about making plans for the battle of 1960—lining up workers, raising money, and so on. The Democrats already have chosen Los Angeles as their convention city; the Republicans are expected to decide soon.

The election of a President of the United States is, of course, a great political drama that excites the attention of the whole world. Few realize, however, how important it is to plan and work in advance for victory. That includes businessmen who wouldn't think of launching a sales program without long and careful preparation.

Fred Seaton, Secretary of the Interior and a keen student of politics, is convinced that Republicans, far more than Democrats, need to be prodded into realizing the importance of year-round work.

"We have to revolutionize our thinking about politics and campaigning," he has been telling

Republican audiences. "The facts of political life are that you win elections between elections.

"You and I know a lot of people who regularly vote Republican but won't run, work, contribute or sometimes even talk Republican. I think there is much to be said for the generalization that, although many Democrats make politics a career, too many Republicans view it as a sacrifice."

Chairman Alcorn has outlined a program that calls for a weekly Republican television show, a monthly Republican magazine (the Democrats have had one for years), the recruitment of two million additional precinct workers, and a stepping up of party work all along the line.

He also is insisting that the image of the Republican Party be changed so that it will have greater appeal to rank-and-file Americans. He told the Des Moines gathering that it was time "we snatched off the big business false face that the Democrats placed on us years ago—time we erased the dollar signs painted on our vests."

• • •

Claude Robinson, of the Opinion Research Corporation of Princeton, N.J., backed up Chairman Alcorn by saying that surveys had shown that the Republican Party has come to be regarded as "the party of the rich and the privileged, the upper crust," whereas the Democratic Party is regarded as the party of the common man.

This kind of talk caused something of an explosion in Des Moines. Echoes of it have been reverberating in Washington ever since. It brought out into the open something that a lot of people would like to hide—the fact that the Republican Party, like the Democratic Party, is badly split.

Sen. Barry Goldwater, Arizona Republican, who won a spectacular victory last November on a conservative platform, told the Des Moines meeting that the party ought to "quit copying the New Deal." He said that large numbers of Republicans had been staying away from the polls because they no longer believe that the G.O.P. has any principles.

President Eisenhower was obviously angered by Senator Goldwater's remarks. How much influence the Chief Executive will have on the party's choice of a nominee in 1960 is conjectural, but it could be considerable. He once said that he would maintain a hands-off policy with respect to next year's convention. But in his Press Club speech he modified that.

He said he "couldn't possibly support" a G.O.P. nominee who did not share his views on foreign policy and to some extent on domestic policy. What he seemed to be saying, in the view of his audience, was that he would not back any candidate representing what is called the Old Guard or Taft wing of the party.

# The Case of the Clumsy Worker

1.



"This man can do the work of ten," Bill Casey realized,  
 "But if I keep him *all* my men will soon be victimized.  
 He's always mashing someone's toe or bashing in a head.  
 I'd better call a Travelers man before I'm in the red."

2.



When Travelers' man arrived he stated sympathetically,  
 "You need our Workmen's Comp and Public Liability.  
 We'll put our safety experts on the problem right away—  
 To make this man productive in a less destructive way."

3.



As promised, Travelers safety engineers dug in and worked  
 To study Casey's operation—find where dangers lurked.  
 "Our Workmen's Comp and Liability," said Travelers' man,  
 "Cuts accidents and lowers rates—a moneysaving plan."

4.



So up went Casey's profits and his company's morale—  
 The clumsy worker hurt no one, alone in his corral.  
 Suppose you have a nemesis—inanimate or human:  
 Call in a trusty Travelers man—a man of great acumen.



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BETTER THINGS FOR BETTER LIVING...THROUGH CHEMISTRY



# BEST JOB INSURANCE: PROFITS

Progress of economy  
depends on earnings

PROFITS ARE BEING BLAMED for a wide range of social and economic ills.

Union leaders have called them the cause of inflation.

Others declare them immoral.

Congressional committees are holding hearings to answer such questions as:

Are present controls of profits adequate?

Is the opportunity to earn profits being misused?

Should corporations be required to get government permission before raising prices?

The fact that corporate earnings now seem headed for an all-time high rate of possibly \$49 billion before taxes will give the critics of profits new ammunition. Overlooked will be the fact that these profits are in terms of current, not constant, dollars. In 1956 prices, they might be worth about \$43 billion. Even in current dollars they do not reflect real earnings because depreciation is inadequately costed. (See NATION'S BUSINESS, October, 1958.) Finally, in relation to the volume of business done, even these profits will be low.

Should profits average as high as \$47 billion and the gross national product average \$475 billion for the year, profits before taxes would be about 10 per cent of the total volume of business done. Profits after taxes would be about five per cent of the volume of business done and a little more than six per cent of personal income. This is about half the ratio prevailing during the 1920's. Overlooked, too, will be the fact

that profits are the most erratic component of our economy. They reached a seasonally adjusted figure of about \$46.7 billion in the fourth quarter of 1955, although the average for the year was below \$45 billion. They dropped below \$32 billion for the first quarter of 1958—a decline of one third in 2.5 years. They probably exceeded the \$43 billion rate in the fourth quarter of 1958, a rise of more than one third in nine months.

If our economy is to grow, all of us need understanding of the role profits play and of the effectiveness of the controls of the market place and the government on the profit system.

It is useful, therefore, to examine:

- ▶ What profits do.
- ▶ How much profit we need.
- ▶ Why profits fluctuate.
- ▶ The weaknesses of the profit system.

## **What profits do**

Profits are the sustenance of business, and of employment. Without profits, funds would not be available for additional plant or equipment to care for an expanding labor force. Successful companies producing what people want could not grow.

If profits did not exist, they would have to be invented, as Russia has learned.

Profits are rarely retained in sterile form.

What happens is that business actually spends

# PROFITS

*continued*

more than its retained profits. Roughly 60 per cent of its profits are paid out in good years (59.9 per cent in the years 1950 to 1958). They go to stockholders, such as pension funds, investment funds, insurance companies, retired people and investors generally. The other 40 per cent of profits is generally invested in improving the facilities or expanding the capacity of the companies making profits.

The company which does not reinvest profits drops behind in our competitive economy. So companies which survive must invest. To invest, they must be able to demonstrate good prospects for profit. What worker would invest his savings in a company that could not pay him dividends? What insurance company, pension fund or investment fund would invest in a company that could not give good assurances of yielding a fair return? So, profits are necessary to enable a company to maintain its position in a competitive world.

The recent history of the supervision of utilities, such as electric power companies, reveals something of the role of profits in the economic system. In the early 'Thirties tirades against the high costs of electricity and the high profits of electric utility companies were common. As the economy recovered from the depression and the need for additional capacity became obvious, utility commissions had to face the fact that additional funds were needed if additional capacity was to be provided. The only way additional funds could be obtained was to offer a return to the potential investor. No investor would put money into a utility company just because consumers wanted more electricity. The taxpayer could be asked to subsidize the utility but, even with this method, additional funds were needed.

Utility commissions learned that, unless the taxpayer provided the money, it was necessary to set utility rates at a level which would yield an acceptable return on new investment. The resulting growth in the capacity and output of electric companies has been phenomenal. It has been made possible by the willingness of utility commissions to permit rates which would attract new capital.

In some utility fields, such as local transportation or commuter transportation, rates have not been high enough to attract new capital. In these fields facilities have not kept pace with the times.

## How much profit?

Studies of the profit rates of the late Nineteenth Century as well as of the early Twentieth Century indicate that when the yield on net assets drops below eight per cent, additional investment funds are not forthcoming. Unless a company or an industry can earn eight per cent net after taxes for the owners of its capital, that company or that industry ceases to grow.

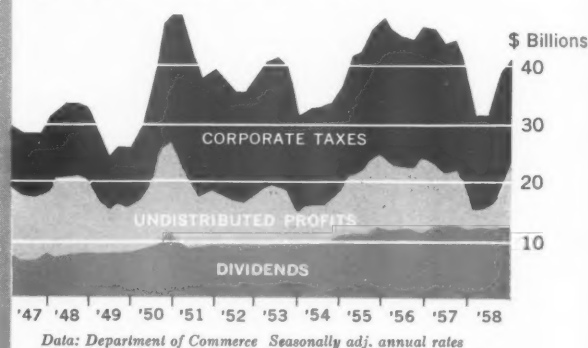
The eight per cent figure varies somewhat with variations in interest rates and in business prospects, but it appears to be representative.

A little reflection may indicate why this is so. If a safe long-term investment, such as a United States bond, will yield approximately four per cent, an investment with insecurity attached to it must yield more. An investment in an industry with cyclical hazards in addition to general hazards must yield still more to compensate for periods when no return may be obtained, and to insure against the risk of loss.

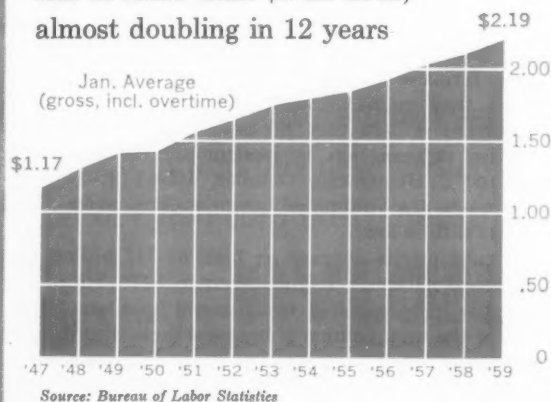
Even for good firms profits represent what is left after everybody else has had his hand in the pocket.

Sales of all manufacturing corporations in 1957, for instance, totaled just less than \$320 billion. Costs and expenses came to nearly \$293 billion. This left about 8.4 cents profit per dollar of sales before taxes. Taxes

**Profits vary widely, year to year, are still below 1950**



**But average hourly earnings of factory workers show steady rise of more than \$1 an hour, almost doubling in 12 years**



came to nearly 50 per cent of this, leaving 4.8 cents in profits after taxes. Costs represented nearly 92 per cent of income. Had costs been only five per cent higher, or 96 per cent of income, profits would have been cut by more than half. The margin of safety for profits is thin. It may rise appreciably in good periods. Profits after taxes per dollar of sales were 5.1 per cent in the first quarter of 1957. They were 3.4 per cent in the first quarter of 1958. That was a drop of one third in a year.

The investor wants protection against such fluctuation. When business is good, his profits must protect him against times when business is poor, just as an employe wants private and public protection against periods of unemployment in the form of unemployment and other types of insurance. Lacking such protection, investment ceases.

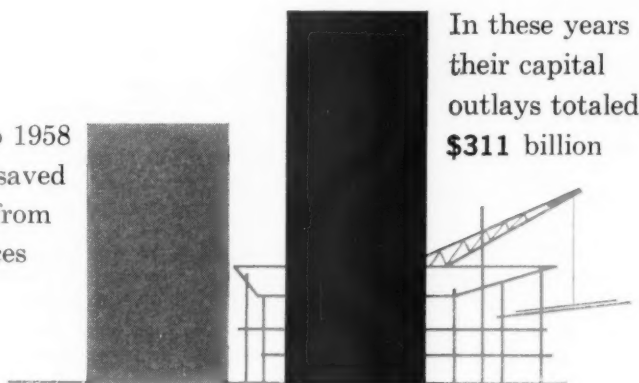
In addition, the return must encourage new capital to enter the field to take care of growth. If the economy is to average four per cent growth each year, expansion during years of growth may have to average five per cent to six per cent to compensate for years of little growth. Growing industries must obviously expand even faster. So the return on the investment must not only support existing investment but encourage additional new investment.

Corporate profits, after taxes, totaled \$157 billion from 1950 through 1958. Sixty per cent of this, or \$94 billion, was paid out in dividends, leaving \$63 billion with the companies. Including depletion allowances, the companies had about \$80.5 billion and, including depreciation and amortization allowances, they had nearly \$208 billion from internal sources during these nine years. But plant, *(continued on page 98)*

### How dividends make jobs—

If industries are to grow, return on investment must not only support present plant but encourage additional new investment

From 1950 to 1958  
corporations saved  
**\$208** billion from  
internal sources



Dividends were the bait  
that attracted investors  
to risk this new capital

# WE'RE WIDENING OUR LEAD OVER RUSSIA

Communists are stretching their resources,  
sacrificing future growth for today's gains

A Nation's Business interview with  
**Dr. Demitri B. Shimkin**, authority  
on Soviet industrial power



THE GREATEST DANGER facing America today is a lack of self-confidence in the face of Russia's military and economic strength.

That's the opinion of Dr. Demitri B. Shimkin, who is interviewed this month by NATION'S BUSINESS.

Clearly, a dispassionate assessment of true Soviet strength and weakness is needed at this time, along with an equally unemotional analysis of our own economic problems and possibilities.

Dr. Shimkin provides such an assessment.

A student of the Soviet Union's economic and social system for almost 20 years, he is currently on leave from his regular post as a senior research specialist in the Foreign Manpower Research Office of the Bureau of the Census.

While on leave, Dr. Shimkin has been engaged as a senior scientist at The George Washington University in Washington, where he is completing a mono-

graph on the Uralic languages (Finnish, Hungarian, etc.). A native of Russia, Dr. Shimkin served from 1941 to 1946 with the War Department General Staff, specializing in supply problems arising out of lend-lease to Russia. From 1946 to 1947 he taught at the National War College; from 1947 to 1948 he was a member of the Institute for Advanced Study at Princeton University, where he wrote an award-winning monograph on the Soviet automotive industries.

In 1953, while at Harvard's Russian Research Center, he wrote the book, "Minerals, Key to Soviet Power." He has written numerous articles and papers on the Soviet system.

At the Census Bureau Dr. Shimkin has specialized in research on Soviet industry and, in 1955, he was one of several authorities who drafted a comparative study of the U. S. and Soviet economies for the Joint Congressional Committee on the Economic Report. In 1956 he was a consultant to the Defense Department's Weapons System Evaluation Group.

Here is how Dr. Shimkin answered questions submitted by NATION'S BUSINESS:

**Do you believe that the Soviet Union is likely to achieve its goal of economically outstripping the United States and the rest of the free world?**

I emphatically do not. Exaggeration aside, Soviet postwar growth has been no faster than that of Western Europe, Japan or Australia. American growth from a high wartime peak, although slower, has also been substantial. Today, the margins of skills, of resources, and of inherent economic efficiency in the West are sufficient not merely to maintain the gap, but even to increase it.

In Europe, the widening of markets caused by an American-inspired revolution of anticipations and by greater integration are providing impetuses for future growth. In this country, the essentials for vigorous growth are greater than ever, but we need to rekindle our national self-confidence and clarify our goals in terms, not of vague objectives, but specific means



attainable within the framework of free enterprise. Over-all, I see every possibility for healthy growth of the free world, a diffusion of economic strength and initiative into Western Europe, the British Commonwealth and, in part, Latin America. The newly independent countries of Asia and Africa, however, are likely to have persistent political-economic problems.

In the Soviet bloc, the economic promise of Poland and China may exceed that of the Soviet Union itself.

**Does the Soviet Union face significant economic problems?**

Yes. In striving for world supremacy, the Soviet Union constantly overcommits its resources for grandiose military and economic programs, at home and

abroad. Actually, it tries to gain its key targets without much regard for secondary ones. It stresses workable expedients rather than basic solutions. Thus, in Soviet coal mines, lavish mechanization has been superimposed upon inappropriate, old-fashioned layouts. The results have been only two thirds as much production and a fifth of the American man-year productivity, with 2,000 continuous coal cutters compared to 500 in the United States.

In agriculture, Soviet output has been increased through vastly expanded acreage, constantly cropped, in marginal dry lands, rather than through soil improvement, irrigation and higher yields. With low, fluctuating yields, the net costs are high; moreover, long-term soil deterioration is inevitable.

Also the gaps between (continued on page 44)

## **WE LEAD—but can learn from Russia**

Certain successes of the USSR in the economic field are worth study and even emulation by America, Dr. Shimkin says. Here are some examples:

- 
- |                   |   |
|-------------------|---|
| <b>STATISTICS</b> | Soviets gather better data on physical capital in industry and on capital utilization |
|-------------------|---|
- 
- |                 |  |
|-----------------|--|
| <b>MANPOWER</b> | By anticipating personnel needs, Russians keep better balance in basic, applied research |
|-----------------|--|
- 
- |                |  |
|----------------|--|
| <b>SCIENCE</b> | Soviet effort is better coordinated than ours. They are more orderly, have more patience |
|----------------|--|
- 
- |                 |   |
|-----------------|---|
| <b>MILITARY</b> | USSR profits from continuity of its effort and from use of specialized institutions |
|-----------------|---|
- 
- |                  |   |
|------------------|---|
| <b>BORROWING</b> | Russia makes effective use of scientific developments from abroad |
|------------------|---|
-

# HOW TO TEACH BETTER SELLING



Your business can profit from this new approach to on-the-job training

BUSINESSES OF ANY SIZE can profit from a new system of on-the-job sales training.

The system is built around these basic points:

1. Motivating the sales trainee.
2. Teaching through mistakes.
3. Evaluating the customer.
4. Creating customer confidence.
5. Communicating with your customers.

6. Following selling procedures.

This approach has been devised by Donald F. Mulvihill, professor of marketing at the University of Alabama, after 15 years of studying and teaching sales management. Professor Mulvihill has drawn, too, on a growing body of scientific research into problems of selling.

An examination of each of his six points should provide answers for some of the tough selling problems currently bothering you.

## **Motivating the trainee**

Every social group has its distinctive mood or tone. In our private lives the variations of the moods of the different groups in which we gather at different times are usually obvious. No one would have trouble distinguishing the mood of a Saturday night poker party from that of a family dinner.

Business firms, too, can vary widely in tone. In most cases the head of the firm or department sets the tone. One manager may dress carelessly, go in for practical jokes and habit-

ually refer to customers as "suckers." Another may listen more than he talks, always seem relaxed and cheerful and may make his decisions quickly and quietly. The tone set in the first case will dampen for employees any thought of putting out effort to learn. In the second case the tone will strongly promote such effort.

These two cases are extremes. They are used only to illustrate the effect of tone on employee motivation. Three steps will go far to assure a group mood which will enhance the desire to learn.

First, it is essential to make only those promises which you intend to keep and to avoid any hint of kidding employees along to keep them happy. A broken promise or even a slight stretch of the truth is likely to be disastrous to the motivation to learn. Only a pupil who trusts his teacher implicitly can accept instruction from him.

A large department store once set up an elaborate and expensive system for training sales clerks. In its first few months the program seemed to justify in increased sales every cent spent on it. Then its effects began to fade.

A consultant had little difficulty locating the trouble. When the program was launched the head of the firm made a speech in which he strongly hinted that all those whose sales showed improvement as a result of the training would receive

promotions. Because of the many participants in the program, it had proved possible to promote only a few. The rest lost interest.

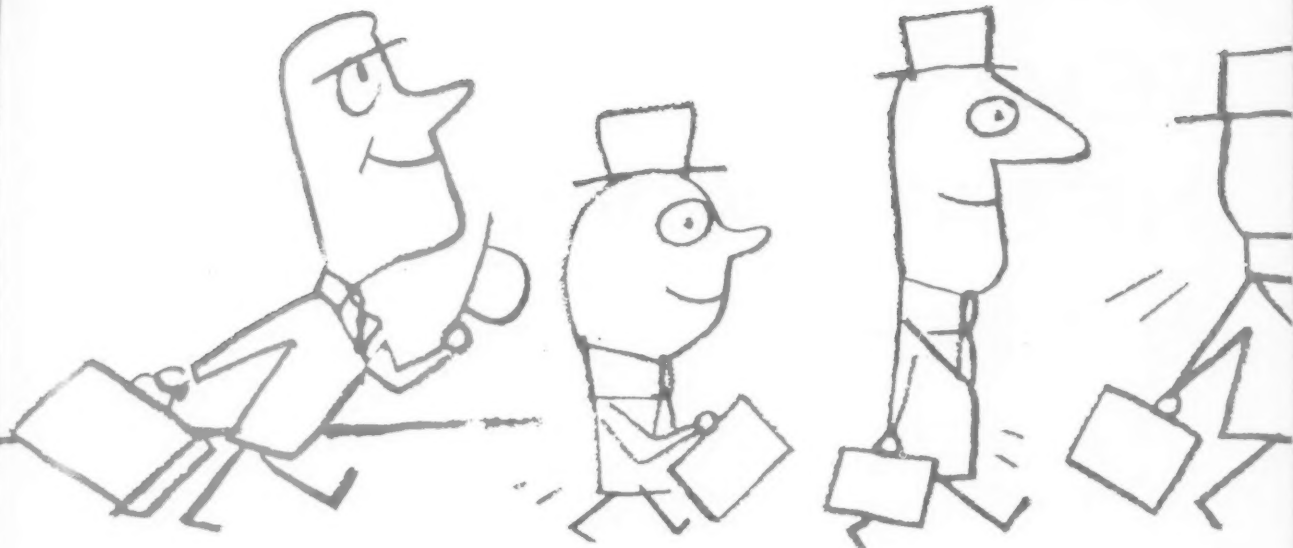
A single disgruntled trainee can sour the other participants in the training. They, in turn, are likely to take out their ill humor on the customers.

The second recommendation is that trainees be given a clear idea of the firm's organization and be kept informed of what is going on in it. A none-of-their-business attitude toward employees not only evokes distrust but also is almost certain to provoke rumors. Such rumors can destroy the motivation to learn.

A typical situation involves the hiring of new employees in anticipation of a planned expansion. Unless trainees fully understand the reason for the hiring of additional men, they are certain to speculate about the reason. The trainees may decide that the new hirings mean that they, themselves, have been judged and found wanting.

The third suggestion for deepening the motivation to learn is to keep the emphasis on future possibilities rather than on past performance. It is true that we can learn only from our own past experience and that of others. But the past is finished and unchangeable, and the purpose of learning is to make the future better.

A manufacturer of plastic kitch-



enware has an effective way of making this point. When a new sales trainee has begun to get the hang of the work, he takes him aside and with him goes over the sales records of the preceding year. At the end of the session he firmly closes the books.

"And that," he announces, "is the last time we are going to discuss the past. What matters now is the future. You are a big part of the future of this firm. I don't want to hear anyone around here telling you about the good old days. Believe me, they were not half as good as the new days coming up."

#### **Teaching through mistakes**

Beginners must make mistakes. Like many truisms, this one is so easily taken for granted that it often is forgotten. Even the professional teachers, for whom the fundamental requirement is patience, can display impatience with their pupils' fumbling. An expert in any field who is trying to pass his knowledge along to others must expect to be tried sorely at times.

One way to learn patience with your new employes is to observe how any display of impatience on your part affects them. Some will get their backs up, and others will go to pieces. If you can learn from such slips of your own, you also will learn how to help your trainees get full value from their mistakes.

To get that value you encourage

open admission of mistakes and full discussion of their consequences. This does not mean permitting trainees to get away with slipshod work. Any attempt to cover up a mistake should be dealt with vigorously, because if one trainee gets away with it, the others will feel that they should, too. What it does mean is that you should let them know that you expect honest mistakes and that such mistakes can be turned to good use.

A midwestern canning firm has a complex pricing system based on quantity and quality ordered, shipping distance, faithfulness of the customer and other factors. Sales trainees have to put in long hours of study to master the system.

They also learn that when they have proved their mastery of it they will be given some leeway in the delivery dates and other conditions they can offer in order to meet competition.

Naturally, the best of them are eager to try their wings. Instead of holding them back until they prove themselves letter perfect, the management turns them loose when they declare themselves ready.

In almost every case they make a few unprofitable sales the first time out. When they check back in, the head of the training program goes over his orders with each trainee and leads him to see just where his misunderstanding of the pricing system has cost the firm money. In do-

ing this the teacher makes it clear that no penalties are to be imposed and that his whole purpose is to help the trainee see the importance of understanding the system.

Mistakes cost money, but it is not money wasted if trainees learn just where and why they went wrong.

#### **Evaluate the customer**

The prime qualification of the natural salesman often is described as an interest in people. Modern psychological studies have shown that this old phrase is nearly meaningless. Humans are social by nature, and all of us take an interest in others.

What a salesman needs is not an interest in people merely in their relation to him but an interest in others for themselves. One of the basic purposes of sales training is to stimulate this attitude. Some come by it naturally. A few can never accept it. They will not make good salesmen. But many can develop the attitude to a useful degree.

The suggested technique is that of relaxed gossip minus any malice. A good way to go about this is by bringing up for group discussion some specific customer or potential customer about whom all or most of the members of the group know at least a little. Point out that the purpose of the discussion is to bring out facts, not opinions or judgments. Try to show, for instance,

(continued on page 96)

# NEW INFLATION WEAPON IN SIGHT

Law change to promote sound money put ahead of proposals which could backfire

By JULES BACKMAN

FEAR OF INFLATION has made the wage-price spiral a key target for many congressmen, government officials and economists.

President Eisenhower gave inflation considerable attention in his Economic Report. He has pointed up his concern by appointing two Cabinet committees, one on "Activities Affecting Prices and Costs," the other on "Price Stability for Economic Growth."

In Congress, the Joint Economic Committee, the Kefauver committee, the Dawson subcommittee on government operations and others are holding hearings on various aspects of the question.

Under immediate discussion is a proposal that the Employment Act of 1946 be amended to include "reasonable stability of the consumer price level" among its objectives, along with high-level employment, production and purchasing power.

The argument is that such a declaration of national purpose would exercise a moral force against inflation.

The part a policy declaration might play in protecting the value of our money is more understandable when viewed against a background which includes:

- ▶ Where does inflation stand now?
- ▶ What other antidotes have been proposed?
- ▶ What would the proposed amendment do?

## Where we stand

Concern over the wage-price spiral has been reaching maximum intensity at a time when consumer prices have been relatively stable for nine months (123.3 in March 1958 and 123.7 in December 1958) and the wholesale price index has shown little change for more than a year (118.5 in December 1957 and 119.5 in January 1959).

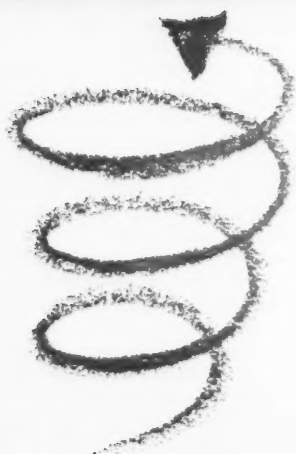
This concern was sparked by the failure of prices to decline in the 1957-58 recession, a situation not unique in moderate recession (see *NATION'S BUSINESS*, July 1958), by the fact that the wage rates continued to rise during the 1957-1958 recession (a more unusual development) and the fear that recent price stability is a temporary interlude which will be broken by a new round of labor cost increases.

President Eisenhower summed up the problem in his Economic Report:

"Despite recession during the first part of the year, wage rates continued to move upward. The rate of increase was nearly as great as in periods of economic expansion, and higher than the rate at which gains

*Dr. Backman, economist, New York University, discusses control of the wage-price spiral at greater length in his book, "Wage Determination," to be published next month by D. Van Nostrand Company, Inc.*

Voluntary or imposed restrictions on increases in prices and wages hold out little promise of stopping a wage-price spiral





in productivity have been achieved in our economy over extended periods. Obviously, if we have only limited success in restraining increases in unit costs during recession, much remains to be done to achieve a basis for holding prices reasonably steady when productive capacity is more fully utilized."

The rise in prices in the mid-1950's is often described as creeping inflation. Some economists have viewed this as unavoidable and appear to resign themselves to an average rise in the general price level of two or three per cent a year. Such a rise would double the price level and wipe out half of the purchasing power of the dollar in 24 to 36 years.

Other economists have been much more concerned.

A cut of 50 per cent in the purchasing power of the dollar in a generation is nothing to be complacent about.

Such a price rise would be particularly burdensome for those with fixed or relatively fixed incomes, among them persons who live on proceeds of life insurance policies, bondholders, government employees, hospital workers, and others. With the growth of private pension plans and an increasing number of senior citizens in our population, more and more persons would be hurt by this declining purchasing power. It is certainly a matter of serious national concern when this group is threatened with a major reduction in their real incomes.

## Other proposals

Many proposals have been advanced to stop the wage-price spiral. Among the earliest suggestions was President Eisenhower's appeal for voluntary restraint in his 1957 Economic Report:

"Specifically, business and labor leadership have the responsibility to reach agreements on wages and other labor benefits that are fair to the rest of the community as well as to those immediately involved. Negotiated wage increases and benefits should be consistent with productivity prospects and with the maintenance of a stable dollar. Businesses must recognize the broad public interest in the prices set on their products and services."

In his 1959 Economic Report the President again called for "self-discipline and restraint."

On June 3, 1958, Rep. Henry S. Reuss, Democrat of Wisconsin, introduced a bill which provided, among other things, that the Council of Economic Advisers should be authorized "to collect information concerning, and make studies of, such proposed price and wage increases as may adversely affect maximum employment, production, and purchasing power; and to report to the President instances where the proposed increase is found likely to have such an adverse effect, to enable the President to make an appropriate, informed request for voluntary restraint by the parties concerned."

However, Dr. Raymond J. Saulnier, chairman of the Council of Economic Advisers, has pointed out that this bill "would seem not only to invite but to require presidential intervention in decisions relating to specific wage and price increases."

Such intervention, in his judgment, would be "altogether undesirable."

Many persons have been skeptical of the possibility of success of such a policy of voluntarism. Accordingly, a number of specific proposals for action to restrain a wage-price spiral have been made.

Among them are:

1. Prof. J. K. Galbraith has suggested that, in administered price industries, we should provide for "a standstill" (continued on page 100)

## Amendment of the



would:

1. Reduce the expectation that further price rises are inevitable
2. Increase prestige of policies that promote stability of price level
3. Require reappraisal of the effects of many of our public policies on productivity and competition
4. Require greater attention to price stability in evaluation of government policy
5. Put government on record as refusing to underwrite wage or price policies for either labor or business

# RESEARCH TALENT EVERYONE CAN USE

Once you identify your problem, six types of organizations are ready to find the answers

TOMORROW'S OPPORTUNITIES and business success seem increasingly to depend on research.

Research activity ranges all the way from the elaborately conceived and fully staffed programs of the larger corporations, to the sometimes one-man efforts of smaller businesses.

The growing availability and effectiveness of outside research facilities provide increasing opportunities to smaller businesses to prepare for the future, and to larger concerns to augment their own efforts.

Outside research contracted by nonmanufacturing organizations totals about \$1 billion per year. Nearly two thirds of this is conducted by colleges or universities, or organizations established by them. The rest is divided among not-for-profit research institutes, commercial laboratories, and consultants.

The role of various types of outside research organizations can be understood by considering them as fitting into a spectrum which extends from fundamental or basic research, through applied research and development into engineering, and, finally, into the consulting role, before disappearing into the invisible range of production and sales. In this spectrum are six basic types of organizations engaged in research for others.

These types of organization are:

Universities.

Research institutes and foundations.

Government laboratories.

Industry-sponsored laboratories.

For-profit organizations.

Consultants.

Although most organizations have a wide range of interests, it is possible, for simplification, to regard each as a pure case dealing only with its major part of the spectrum. This permits us to look briefly at the

scope and nature of each of them and how they can help you.

## **Universities**

The universities form the basic end of the research spectrum. In general they conduct research in support of their teaching programs. Funds may be either in the form of grants or contracts on which professors can work part-time, or funds which will support talented students in their pursuit of a thesis. Most universities also have arrangements by which the teaching staffs can enter into consulting arrangements with outsiders.

Some universities simply permit these activities and leave it to individual schools, departments, or professors to find support where they may. Others have specific channels for getting the outsider and the staff together. Massachusetts Institute of Technology, for example, has a Division of Sponsored Research, which will entertain and even solicit support for its various activities. These activities are vital to the existence of our universities and deserve support.

The universities' chief limitations are that they are teaching organizations that maintain academic freedom to select the specific course of work. They usually reserve the right to publish theses, and accomplishments are not the exclusive property of the sponsoring organization. Since much of the work is done by either the university staff or students, the project is frequently not pursued on a full-time basis, although a number of universities are making careers out of such activities.

## **Research institutes and foundations**

The applied research or technique portion of our spectrum is dominated (continued on page 78)

## PLANNING RESEARCH?

Here are pertinent questions and answers

### How much work has been done in the field?

You are advised not to try to catch an effort that is two or three years ahead and better financed.

### What about patents?

Patents are available from most of the research institutes and for-profit organizations.

### Will the research require special talent?

If there is some doubt as to how the problem might be solved, you should start with an organization that can compare the merits of alternative solutions.

### Will the project be large or small?

Research institutes are best suited to the \$10,000 to \$1 million range. If less than \$5,000 is involved, you are talking about a short-range, and usually a one-man effort.

### What kind of organization can assist your research effort?

Universities



Institutes and foundations



Government laboratories



Industry-sponsored laboratories



For-profit groups



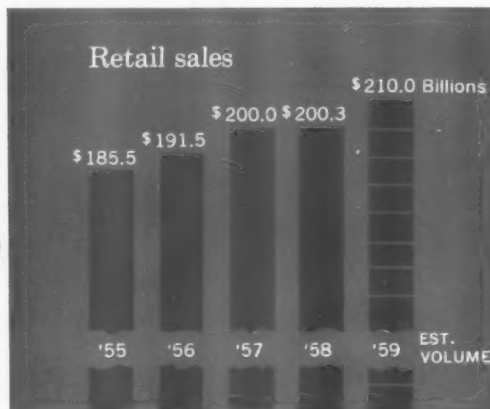
Consultants



**This article gives detailed answers to these and related questions**

# HOW'S BUSINESS?

## today's outlook



### AGRICULTURE

Major farm legislation is highly uncertain this year although both parties agree that the existing program is far too costly and has failed to control production.

The President, in his farm message, emphasized this weakness, pointing out that present support programs channel most of the dollars to a relatively few producers of a few crops and pile up costly inventories for which no commercial markets exist at the supported levels.

Secretary Benson has asked also that wheat controls be eliminated or tightened.

Traditionally, however, the off-years of congressional elections produce little farm legislation. Moreover, no action can be expected on cotton, rice and feed grains until experience indicates how well the compromise law of 1958 will meet the problem.

This has not prevented introduction of farm bills which, if enacted, would have the government determine to an even greater extent a farmer's level of income, what he can produce freely, how his crops will be marketed and at what price.

### CONSTRUCTION

Research to find methods and materials with which to build better houses at less cost is moving ahead rapidly.

Under auspices of the National

Association of Home Builders, three experimental houses have been built. They incorporate products which are not yet available to builders.

The research effort began in 1957 with the construction of an experimental home in Kensington, Md. Today there are demonstration units in South Bend, Ind., and Knoxville, Tenn.

Two more homes are scheduled to be built this year.

Even if the methods and products used in these experimental homes do prove to be cost-savers as well as technically sound, they'll have to face scrutiny by the building trades unions and the restrictive pressures of many local codes.

In spite of this, confidence is high that the research program will result in a reduction in over-all cost to the consumer as well as in increased quality of construction.

### CREDIT & FINANCE

Higher interest rates are in sight.

Personal income, industrial production, retail trade, gross national product and other related economic indicators all point upward, some sharply, others moderately.

As the level of business activity heightens, the demand for bank credit increases.

Monetary authorities are expected to keep a close rein on inflationary pressures, even though this may bring political complaints.

In the international finance field, efforts to increase the resources of

the International Monetary Fund and World Bank, aimed at stability in world monetary matters and to aid the underdeveloped countries, will find widespread support. Congress will act soon on legislation designed to increase the U. S. contribution to these international banking agencies.

### DISTRIBUTION

All segments of distribution look for steady improvement in the sales-profit picture in the months ahead.

Late 1958 sales momentum has carried over into this year's first quarter. Consequently, the national wholesale and retail dollar volume is hovering two to six per cent above year-ago figures.

Grocery sales, which did well in 1958, are expected to make further but more moderate gains this year. Drug store sales will break the \$7 billion mark, a trade source says, for a 3.5 per cent increase over 1958.

In the auto trades, new car sales may not exceed 5.5 million units. At that it will be a hard-sell situation, which may account for the big newspaper auto promotion campaign scheduled for April.

The only blemishes in the overall business picture are: 1, increased overhead and, 2, a slow but sure rise in the general price level.

### FOREIGN TRADE

Legislative proposals designed to meet "the challenge of Soviet com-



# Chamber of Commerce of the United States

petition in world markets" are in for a real fight during this session of Congress.

One proposal calls for a multi-billion dollar program to subsidize exports of textile apparel and other consumer goods. Its supporters say it would make American products available to many lands at prices the people could afford. Another bill would establish a United States trading corporation for a similar purpose.

Some observers doubt whether U. S. taxpayers would be willing to pay for a consumer goods subsidy in addition to the current agricultural subsidy.

Furthermore, many foreign traders view the challenge of Soviet competition as more fear than fact. They believe that ill-advised moves by the United States could bring painful trade reprisals by friendly nations.

One legislator commented, "It would be shortsighted to conclude that the United States should establish a trading monopoly of its own to combat that of the Soviet Union."

## GOVERNMENT SPENDING

Although some of the initial actions of Congress seriously threaten hopes for a balanced budget for 1960, there are still formidable roadblocks facing runaway spending.

Several Senate proposals must pass the traditionally stern appraisals of the House Rules Committee and, in most instances, the House Appropriations Committee.

There are indications of growing resentment on the part of influential House members regarding Senate spending proposals.

This stems from the precedent of House origination of both revenue and spending legislation.

Particularly vexing to these members has been the growing practice of providing program funds by borrowing from the Treasury rather than through regular appropriations, thus avoiding review by the appropriation committees.

## LABOR

Professional unionists now appear willing to accept some government regulation of union internal affairs if Congress will weaken Taft-Hart-

ley, giving them concessions unrelated to corruption and racketeering.

If the bill which goes to the President is to be truly a reform measure, it will include sections dealing effectively with:

Coercive minority picketing to force employees to join a union or an employer to bargain with a union not representing a majority of his employees;

Secondary boycotts involving innocent workers and employers in labor disputes not of their making; and

Financial skulduggery, undemocratic practices and union racketeering.

Mere disclosure without minimum standards of conduct for unions will not do the job.

The legislation will not be labor reform, but more union monopoly, if it includes provisions:

Permitting compulsory membership after seven days in the construction industry; granting a vote in representation elections to replaced strikers, and narrowing the definition of supervisor thus curtailing an employer's ability to manage his own business.

## NATURAL RESOURCES

Pressure for condemnation by government of private lands is increasing. Affected are natural resources upon which business, industry and local economies depend.

Large and important forest areas in Texas, Oklahoma and Arkansas have and will be condemned for water storage, flood control and power development.

In addition, there has been a gradual build up of demands for doubling the size of the national park system.

This would mean acquisition of about 17 million acres, largely in the South, Midwest and East, most of it private land.

Seriously affected would be the pulp, paper, lumber, mining, water and power, and private recreational industries. Removing these lands from private ownership would mean reduced local, county and state tax bases and higher assessments on private property.

Government acquisition of private property would, in some instances,

force industry to seek other sources of raw materials.

## TAXATION

Congressional action in the tax field this year can now be predicted.

While talk of tax reform will continue on Capitol Hill, broad action is unlikely.

Congress almost surely will extend for another year the present rates of taxation on corporate income. High levies on products subject to an excise tax probably will be kept, too.

As to other major proposals before Congress, this is the outlook for action in 1959:

An increase in the federal tax on gasoline to pay for highway construction. Doubtful.

An increase in excises on aviation gas and jet fuel. Doubtful.

Increased tax on life insurance companies and cooperatives. Likely.

Deductions for retirement funds for self-employed. Likely.

Liberalized treatment of foreign source income and depreciation allowances. Possible.

## TRANSPORTATION

The debate on user charges for aviation facilities provided by the federal government has reopened.

In his budget message, the President asked for a 4.5-cent-a-gallon tax on aviation fuel (now two cents on gasoline, nothing on jet fuel) to enable the government to recoup part of the cost of the expanded airway navigational aid program.

In principle, this is a logical and equitable method of assigning responsibility for the program. However, as a practical matter, the airline industry protests that it is in no position to absorb such charges. The lines state that the tax would cost \$65 million a year. The industry's net profit in 1958 was \$30 million.

A fare increase of about five per cent would be needed to make up the difference. The lines are already asking higher fares to pay for new jet equipment.

The proposed tax might bring a decision from the Civil Aeronautics Board on the long pending passenger fare investigation.

## Technological obsolescence cuts Soviet industrial efficiency and productivity

availabilities and priority demands have been closed by stagnation or sacrifice elsewhere. Soviet housing is notorious. Only an eighth of all Soviet food stores have refrigeration. The repudiation of state bonds in 1956, the recent discontinuation of state wages and social security for two million farm laborers, and the cutbacks in education illustrate the exactions demanded by Soviet industrialization. The absence of effective controls over air and water pollution by Soviet industry and admittedly poor labor safety also take their toll.

### **What other problems do the Russians face?**

In industry and transportation, overloading and the desire to minimize investment have led to widespread technological and structural obsolescence, with corresponding drags upon efficiency and productivity. Miserable roads and inadequate rural electrification contribute toward spoilage and excessive costs in marketing food. Dependence upon low-calorie solid fuels, coupled with transport of petroleum primarily by tank car rather than pipe, lead to a ton-mileage per unit of industrial output 40 per cent higher than in the United States. An inadequate variety of products from Soviet rolling mills necessitates extensive and wasteful metal cutting in Soviet machinery industries, with less finished output and heavier investment for lathes, planers and shapers per ton of steel consumed than in the West.

Finally, the militaristic direction and the totalitarian nature of the Soviet system have generated profound social injustices, particularly toward the rural population. The Soviet peasant receives little schooling, inferior medical care, and no social security, yet he is specially subject to compulsory work on roads. His children are required to start farming at 12, and may be conscripted at 14 for work on railroads, or in factories and mines.

In fact, all Soviet adolescents today, young aristocrats apart, represent a savagely deprived class. Even members of the managerial class cannot feel too happy at the loss of bond holdings, nor at the

full usurpation of power by the communist apparatus. Thus deep grounds for unrest exist. While state coercion may hinder their open expression, their effects upon productivity gains and creativity are hard to exaggerate.

### **What about the Russians' striking progress in such fields as cosmic rocketry?**

Such a contradiction is one of the basic characteristics of the Soviet system. It gains results by intense concentration upon selected sectors. The costs of rocket-launching successes are the stagnation of agricultural research; tuberculosis mortality at least five times that of the United States; the absence of a single civilian automotive proving ground. But the system represents great skill in psychological warfare, in selecting a course of action to hide Soviet weaknesses and substitute for them an image of ruthless power hypnotically effective upon the fearful West.

### **Will Russia reach the targets fixed in its new domestic program?**

The current program appears to be a speed up of previous Soviet plans for this period, especially in relation to metal production. Its prospects can be gauged this way: Historically, the Soviets have done well in their heavy industrial output goals, but poorly in agriculture, consumer goods and services, and in productivity gains. Over-all, this pattern is likely to continue. However, the depletion of prime iron ore, coking coal and bauxite resources is creating new problems of relocation, processing and substitution.

### **Why are they taking such severe measures?**

The most important reason is the steady deceleration of gains in industrial productivity. According to my estimates, Soviet postwar man-year productivity gains through 1950 were about 10 per cent per year; between 1951 and 1956 they ran five to six per cent a year; and in 1957 and 1958 they were less than three per cent. At the same time, the Soviet labor force is enter-

ing into a period of slow growth, caused by low birth rates and excessive mortality during the 1940's. Thus, Soviet industrial manpower requirements must be met by employment at earlier ages, and by transfers of manpower from agriculture and services to industry, construction and transportation. Such transfers will mean continued rapid city growth, and necessitate substantial housing and utilities programs to maintain even today's low standards.

### **How will Soviet economic growth over the next five or ten years compare with ours?**

This question really involves two facts that must be explored in turn—a clarification of what we mean by economic growth, and an understanding of the limits within which the rate of growth may be predictable.

Economic growth involves several dimensions. One is the expansion of economic activity of an essentially homogeneous type. By this measure, the Soviet Union has been growing at least five per cent per year since 1951.

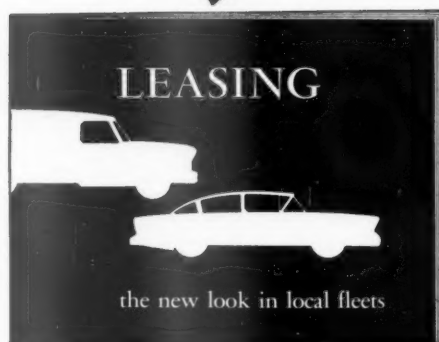
This estimate is substantially lower than the official Soviet version, which excludes civilian and military services (a slowly growing component), which makes inadequate allowance for capital consumption, and which is constructed on a gross rather than net basis.

In Soviet agriculture, the difference between the rise of gross output and that of income originated, at constant prices, is particularly large, since productivity increases have been moderate while mechanization and fertilizer costs have been high and rapidly mounting.

The second dimension of growth is qualitative change, a matter of substitution by improved products or methods rather than of intensified economic activity alone. By this measure, Soviet progress has been much less favorable. Many types of substitution, such as the switch from steam to diesel and electric locomotives, which took place years ago in the United States, are just getting under way in the USSR. The pressure to maximize economic activity regardless of costs keeps obsolescent plants and even industries—such as peat fuel—in operation. Conversely, the past decade has witnessed an exceptionally rapid rate of product change in American industry.

The third dimension is the accumulation of national wealth. While the Soviet Union has greatly

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## LEAD OVER RUSSIA

*continued*

increased its capital resources, its mines, power plants and factories, it has had no counterpart to the tremendous westward and southward shifts, the improvements in housing, the suburbanization and the reduction of rural-urban differences which have taken place in the United States since 1940.

Our rural electrification, our national highway program, our telephones, are unique accomplishments.

Thus, no single measure can encompass economic growth. By some measures, the Soviet Union has been growing faster; but by others, the United States leads.

So far as the future is concerned, I am not a prophet. However, one basic change in relative resource availability as between this country and the Soviet Union is taking place. That is in the population of working age, essentially 15 to 60, from which the labor force is drawn. Between 1950 and 1956, a 14 million-person increase in the Soviet population of working age provided a basis for rapid growth, while in the United States growth was retarded by a mere 4.5 million-person rise in the corresponding age group. That was a long-term effect of our great depression.

Conversely, the consequences of World War II will hold the rise of the Soviet working-age population, 1956 to 1965, to eight million, while the American rise will be 12 million. Consequently, if we employ our human resources effectively, we can maintain an economic expansion over the next decade surpassing that of the Soviet Union by any measure.

**What do you see as the principal economic challenges facing the United States in the coming decade?**

Politically, a high employment policy will be inescapable. Therefore, the decisive question is whether employment will increase through vigorous growth or through shorter hours and overstaffing. If we take the second course, we are due for continued inflation because of higher costs, increasing difficulty in competing in world markets, and a sharp loss of influence internationally.

To follow the first course, we must, I believe, face five general problems:

First, we must make effective use

of our technological advances. The crucial need is for the prompt and effective dissemination of information to smaller business, coupled with ready licensing and improved marketing. A decentralized pattern of cooperation between government and private enterprise, broadly similar to that of our Soil Conservation Districts, might prove useful in attacking this problem.

Of equal importance is a serious and continued effort to maximize feed-back of the practical developments made in military fields, such as printed electrical circuits, into civilian technology. A vigorous policy, not merely of declassification, but of active dissemination, would have two other consequences. By introducing compatible standards into civilian technology, it would expand the mobilization base for scarce commodities. By changing military production in many fields from special order to standard items, it would reduce procurement costs.

Second, to take advantage of new machines and new techniques, a vigorous program of technical and vocational training appears essential, both for new workers and the present labor force. The effects of the medical profession's refresher programs in making possible the

prompt exploitation of advances show the potentials of such an effort.

Third, we need a systematic, timely expansion of natural resources, especially minerals, water and timber. In general, one of America's historic advantages has come from well balanced and low-cost raw materials supplies. However, for many years we have failed to develop our domestic resources at rates commensurate with foreseeable demand. We have become increasingly dependent on foreign sources. Today, new methods of exploration, of refining and purification, of management, and of substitution permit substantial strengthening of our resources base.

Fourth, to promote effective capital formation, to establish new businesses, to maintain a healthy consumer demand and to control inflation, we must have a wise system of financial management. The problems in this field are innumerable and complex—the development of sound criteria for amortization in a highly competitive, technologically advancing economy, the reduction of the sensitivity of income tax yields to moderate business fluctuations are two examples.

Fifth, we need balanced growth  
(continued on page 50)

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'59 Ford pickups running one of the Economy Showdown courses set up by the research engineers. Like all the new '59 pickups tested, these are regular stock models with a standard six-cylinder engine, 3-speed transmission and standard rear axle ratio.

- Biggest comparison tests of truck gas mileage ever conducted by an independent research firm!
- Pickup models of all six makes tested in all kinds of driving!
- Both new and used trucks tested—534 units all told!

The difference between the right truck and the wrong truck can cost you *hundreds of gallons of gas* the first year alone!

A pretty startling figure? It's just one of many findings from the most far-reaching tests of truck fuel economy ever made.

These tests dug out the actual facts on gas mileage the only way they could be gotten—every truck pitted against its brother in an Economy Showdown.

To keep the tests fair and impartial, Ford Motor Company went to America's leading independent automotive testing firm. The project was outlined, the funds provided, and the Economy Showdown became solely the research organization's baby.

### FIRST TESTS—NEW '59 TRUCKS

Standard six-cylinder models of the six leading half-ton pickups first were put through exhaustive road trials. All '59 trucks—Ford and competitive—were bought from dealers, just as you would buy them. After at least 600 miles break-in, all were brought up to manufacturer's recommended specifications.

The trucks were then tested at constant speeds of 30, 45 and 60 miles an hour. Next came stop-and-go tests ranging from moderate city traffic to normal retail delivery operation. Acceleration rates were carefully timed in each gear to insure accurate results for all makes. Here are the results—certified by America's foremost independent automotive research organization.

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# Economy Showdown USA better gas mileage!

## CERTIFIED SHOWDOWN RESULTS

The '59 Ford Sixes, in every test, averaged more miles per gallon than every other make!

Combining all tests, the '59 Fords led the average of all other '59 pickups by 25.2%.

To put it another way, for every 1,000 miles driven, the '59 Fords gave an extra 252 miles gas free.

For the typical truck owner driving 10,000 miles annually, this would amount to a saving of 129 gallons of gas the first year alone.

## WHAT'S THE SECRET?

How can a '59 Ford Six make four gallons do the work of five in other trucks?

First, of all pickup Sixes, only Ford has modern Short Stroke design. This new type of engine is basically far more efficient than the long-stroke Sixes of other pickups—most of which were born before World War II!

Second, to this modern engine Ford has added a new economy carburetor. By metering fuel more precisely in both low- and high-speed ranges, Ford's new carburetor boosts gas mileage in every type of driving. And it's standard at no extra cost.

## WHAT SPEED GIVES BEST ECONOMY?

Economy Showdown tests reveal that, with any make truck, actual miles-per-gallon depend upon the kind of driving you do. In normal retail delivery operation, for example, gas mileage drops to less than half that obtained at a steady 30 miles per hour.

High speeds are hard on economy, too. At 60 mph, it takes 16 gallons to go the same distance that 10 gallons will take you at 30 mph.

You can't always tailor your driving to get absolutely maximum economy, of course. But of this you can be sure. No matter where or how you drive, no other leading truck will give you the gas savings of Ford's modern combination: Short Stroke Six plus new economy carburetor. Economy Showdown USA proved it!

Your Ford Dealer now has the full report of Economy Showdown USA. Why not call him today and get the whole story firsthand?

## HOW NEW '59 SIXES RATE IN GAS MILEAGE

'59 FORD SIXES GIVE	25.2% more miles per gallon than Make "C"	31.1% more miles per gallon than Make "I"	9.6% more miles per gallon than Make "G"	42.6% more miles per gallon than Make "D"	22.0% more miles per gallon than Make "S"	25.2% more miles per gallon than the average of all makes
IN ONE YEAR (10,000 miles) FORD SAVES	129 gallons of gas	160 gallons of gas	49 gallons of gas	219 gallons of gas	113 gallons of gas	129 gallons of gas

## HOW GAS MILEAGE DROPS FOR OLDER TRUCKS

Everybody knows that gas mileage falls off as a truck gets older. But how fast, how far? 499 pickups were tested. In these tests, the '59 Fords were tested without break-in.

As you can see, gas economy tends to drop sharply somewhere between the second and fourth years . . . levels off after six years. Had the new '59 Fords been broken in (as all 1959 trucks were in the tests above), they would have achieved a much greater advantage.

'59 FORD GAS MILEAGE BETTER BY			
25.6%	27.5%	24.6%	15.2%
9- to 11-year old trucks	6- to 8-year old trucks	3- to 5-year old trucks	1- and 2-year old trucks

## HOW DIFFERENT KINDS OF DRIVING AFFECT GAS MILEAGE

Here is how gas economy in various Showdown tests compared with economy at 30 mph—the point of maximum mileage.

100%	80%	68%	63%	48%
30 MPH STEADY SPEED	45 MPH STEADY SPEED	NORMAL CITY TRAFFIC	60 MPH STEADY SPEED	NORMAL RETAIL DELIVERY

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## **LEAD OVER RUSSIA**

*continued*

to maintain stable cost relationships domestically and an effective posture in foreign affairs. Yet, while the various segments of our economy expanded rather proportionately between 1940 and 1951, practically our entire economic expansion since then, especially the growth of employment and of companies, has been in the service sector. The growth of manufacturing, which underlies productivity gains in other sectors, has been measurably slower in the United States than in the Soviet Union or Western Europe.

**Why has our manufacturing growth tended to slow down as compared to our growth in the service industries?**

Apart from somewhat unfavorable cost, price, profitability and demand trends, I think the following are significant:

Since World War II, a tremendous amount of product substitution has taken place. Many new commodities—tubeless tires, transistors, synthetic diamonds—have appeared, while other products have become obsolete. Also, American industry has developed an extraordinary capacity to saturate markets. Under such conditions, business mortality is high. How to reduce it, how to promote economic stability under conditions of rapid technological advance present fundamental problems.

**What impact will Soviet foreign trade and aid programs have on the United States?**

I think Soviet foreign trade is a dual phenomenon. In one sphere, its purpose is to import commodities difficult or costly to produce in the Soviet Union: heavy duty copper wire, which has constituted the bulk of British exports to the USSR in recent years, is an example. To pay for those imports the Soviets must export, and the product exported is generally some short-run overage, which is dumped for what it will bring. Since the Soviets may shortly be importing the same product, the ensuing market disruptions give them both a political and an economic bonus. This kind of an operation can be bothersome, but is rarely a major threat.

But Russia also uses foreign trade as one instrument in a strategy of penetration and subversion designed to deny selected areas to western

trade and investment, if not to convert them to active hostility. Such operations are exceedingly dangerous, but the counter to them is only partially economic. Political stability and military viability are the essentials.

In the economic field specifically, perhaps more attention is needed in the promotion of geological and other resources exploration by newly developing countries, and in the development of vocational training.

**Will Soviet technology mean an increasing problem for us in the years ahead?**

Soviet military technology has been original and effective for many years, and will unquestionably give us serious problems. Also, in certain areas such as the machine-tool industry, there is a possibility of genuine Soviet competition in world markets. Finally, Soviet research, like American, British or Swedish research, always has the possibility of breaking through to new potentials in fields such as thermonuclear power.

In the military field, the Soviets have gained advantages from the continuity, on a large scale, of their effort, and from its integration by specialized, permanent institutions. One of the most notable has been the Academy of Artillery Sciences which has united the soldier and the scientist in coordinated planning, research and development in systems design, ballistics, propellants, metallurgy, etc. In addition, the Soviets have carefully followed, and often exploited effectively, new scientific developments in the West.

Our own effort in large-scale research is essentially an outgrowth of World War II. It has expanded far more rapidly than the Soviet effort, but still suffers from inadequate coordination, insufficient attention to basic research, and inadequate use of accumulated findings, both domestic and foreign.

**Can study of Russian experience and developments help our economic growth?**

Certainly. I would stress three aspects: know-how in the organization and administration of military-scientific programs; provision for highly specialized training; and substantive accomplishments in varied fields such as crystallography, geochemistry, and soil science. In general, they have a more orderly approach and more patience. By anticipating substantial needs for specialized personnel in dynamic



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*The car that's wanted for all its worth!*

## LEAD OVER RUSSIA

*continued*

fields such as metallurgy, they have kept better balance than we between basic research and application.

Even in areas where we generally excel, such as statistics, they have ideas worthy of emulation. For example, they gather fuller, more current data on physical capital in industry (numbers, types and ages of metal working equipment, electrical apparatuses, etc.) and on capital utilization (number of shifts of operation, etc.). As a result, they have a better understanding of their investment requirements. In addition, while they have comprehensive statistics on their professional and subprofessional manpower, our statistics in this basic area are partial, contradictory, and out of date.

### **How will the development of West European economic union affect our future?**

The breakdown of barriers in Europe and, above all, the changing outlook of the European consumers are creating new markets and new economic strength. At the same time, if these advantages are to persist, trade barriers with this country and the British Commonwealth must be held to a minimum. However, since European productivity is rising rapidly, we must, to compete effectively in our own and foreign markets, maintain increasing productivity and the active innovation of new goods. Certainly, it does not seem probable that industry can effect economies by reducing wage levels. Thus, from this standpoint as well as that of the Soviet military threat, we have the choice of vigorous progress or serious trouble.

### **Can we handle these problems on the basis of a private-initiative economy?**

Of course. In fact, I can conceive of no sound program that does not originate through cooperative efforts at the local level. However, if that does not eventuate, the cumulation of unsolved problems will bring about centrally imposed answers. Over-all, I think the issue boils down to a question of initiative. If private enterprise does not take an active role, not merely in accepting economic expansion but in helping frame its direction, and in educating the public as to the alternatives open to it, then we will have increasing state control. **END**



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# UNIONS GET SET FOR MORE STRIKES

These new rules and practices help labor's striking power, add to employers' problems

STRIKES IN U. S. INDUSTRY will increase this year and management will face more problems in settling them.

That's the informed outlook in Washington.

Increased difficulties in handling strikes will grow out of changing strike rules and union strike practices. How these factors have changed, or will change, can vitally affect your business whether or not you deal with a union or have a strike in 1959. They can affect your sales, your costs, even your right to operate a business. New rules can also affect the rights and safety of your employees.

Changes involve:

- ▶ The right of employers to help each other in defense against excessive union power.
- ▶ Cost of unemployment compensation and its implications in strike situations.
- ▶ Growth and new use of strike benefits paid by unions.

More labor contracts (about 150 big ones) come up for negotiation this year. They cover about 4.5 million workers.

Union negotiators expect to capitalize on improving business conditions by asking, and getting, higher wages and more and larger fringe benefits. They will ignore President Eisenhower's plea that unions, be-

cause of "the great power lodged in their hands," exercise restraint in their wage demands.

In rebuttal to the President's request and warning that increased wage costs not justified by higher productivity are inflationary, the AFL-CIO Economic Policy Committee denies that union-won wage increases cause rising prices. It insists that unions will continue to press for wage increases.

Key trouble spots will be the rubber, shipping, steel, meat packing and railroad industries, in that order, from April to November. Actually, the outcome will affect all businesses.

The federal government's chief labor conciliator, Joseph F. Finnegan, hears tough talk coming from the United Steelworkers and sees growing resistance to inflationary wage increases in the steel industry. This could mean trouble on June 30, when the three-year basic steel labor agreements expire. A month-long strike preceded the last wage settlement in 1956.

In addition to wages and fringe benefits, Mr. Finnegan expects questions of seniority rights, plant relocations, size of crews and problems stemming from automation to complicate the bargaining.

Among the significant changes and trends in connection with strike activity which may bear on the future of your business are these:

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## EMPLOYER MUTUAL AID

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The Civil Aeronautics Board has approved as being in the public interest a mutual assistance pact among six major airlines. Under the pact, struck airlines route prospective passengers to other lines. Par-

ticipating companies pay over to the struck line their increased revenue, less expenses.

Members of the Hawaiian Sugar Planters Association who bargain on an industry-wide basis have joined in a mutual support program intended to distribute long-term strike losses evenly among the 26 island plantations.

Courts have upheld the right of all employers in a joint bargaining group to shut down when the union

strikes one of the group in an attempt to divide and conquer.

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## UNION AID

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Unions have long helped each other in strikes, financially as well as in other ways. The International



Union of Electrical Workers was given \$977,000 by the United Automobile Workers and promised \$500,000 by the United Steelworkers in its long strike against Westinghouse Electric Corporation in 1955-56.

International Ladies Garment Workers gave the UAW \$100,000 when the latter struck the General Motors Corporation in 1946.

A few months ago the Teamsters Union lent the striking Flight Engineers \$200,000.

## STRIKE BENEFITS

More unions are paying cash benefits to members while they are on strike. More are also beginning to pay the benefits as a matter of right, rather than on the basis of need. Minimizing his financial hardship reduces a worker's reluctance to strike and increases the union's ability to prolong a strike.

Unions claim that the threat of a strike supported by a big strike fund can make an employer more amenable to settling a dispute on the union's terms. Paying strike benefits only to those who are in good standing in the union and who make themselves available for picketing and other strike activities also helps build up union membership and discipline.

Members of the International Association of Machinists approved a dues increase last March and earmarked 50 cents a month for a strike fund. As a result, the union increased strike benefits from \$10 to \$35 a week in November after the fund reached \$2 million.

In preparing for important automobile industry negotiations a year ago, the UAW decided to pay cash strike benefits as a matter of right, instead of handing out money for food, rent and clothing to those in need. The union also built its strike fund up from \$24 million to more than \$41 million by assessing members \$5 a month for three months while continuing to earmark 25 cents of regular monthly dues for the fund.

In 279 authorized strikes last year, the UAW paid out \$22 million in cash benefits. By Jan. 31, the

fund was down to \$16.6 million. When the fund goes below \$20 million, union officers may impose assessments which would increase it to \$25 million. Accordingly, dues are going up \$1 a month in March. Emil Mazey, UAW secretary-treasurer, has said the fund should be boosted to \$100 million. (Major automobile industry contracts do not expire until September 1961.)

Benefits paid by UAW begin the third week of a strike and increase in amount beginning in the eighth and again in the twelfth week. A married striker gets more than a single one, with still more going to one with a family. The scale:

### CASH BENEFITS BEGINNING

	THIRD WEEK	EIGHTH WEEK	TWELFTH WEEK
Single	\$12	\$15	\$17
Couple	17	20	23
Family	22	25	30

A National Industrial Conference Board survey of 78 national unions revealed that 43, with a membership of 7.5 million, pay strike benefits. Of these, 30 with 5.2 million members pay benefits out of a special fund to which a designated amount of dues is earmarked each month. In four unions with 1.4 million members, or more than one fourth of the total, the amount put into the fund is 50 cents or more per member.

The unions that have no special strike funds pay the benefits out of general union funds.

The NICB survey disclosed these additional facts:

Sixteen unions pay a flat amount in strike benefits, ranging from \$5 to \$40 a week. Others base benefits on such things as earnings, need, marital status and dependents. Members of the Air Line Pilots Association were not hurting too much financially while on strike against American Airlines recently. They received strike benefits ranging from \$350 to \$650 a month.

Twenty-nine unions make the payment of strike benefits a matter of right; nine base them on need. (Five did not state the basis.)

Most unions put restrictions on who can collect strike benefits and under what circumstances. Usually, the strike must be authorized by top union officials; the striking local

union and its members must be in good standing; strikers must be available for picketing and other strike duties.

A waiting period usually must precede payment of strike benefits. Only four of the 43 unions paying benefits have no waiting period. Most commonly, strikers have to wait one week (14 unions) or two weeks (11 unions) before payments begin.

Of the 35 unions that pay no strike benefits, nine do not permit strikes. Most of their members are in government service. Most of the others, such as the United Steelworkers, help strikers locally on the basis of need. (Paying cash benefits to all strikers is not considered practical in a union which bargains industry-wide, as the Steelworkers do; with most of its members on strike at one time, a strike fund or the union treasury would be depleted rather quickly.)

## TAXABILITY OF BENEFITS

Strike benefits are not subject to federal income tax under a recent decision of the U. S. Circuit Court of Appeals at Chicago, which reversed a contrary holding of the Federal District Court. The Internal Revenue Service is asking the Supreme Court to declare the benefits taxable.

If the present decision sticks, IRS will have to refund about \$500,000 in income tax payments the UAW says striking members paid on benefits they have been receiving from the union since the bitter strike against Kohler Company began in 1954.

The case in court involves one employee, Allen Kaiser, who received benefits amounting to \$565 from the union in 1954 and paid an income tax on them of \$108.

Significantly, the UAW helped Mr. Kaiser before he even joined the union. The strike began in April 1954; the union began giving him money for food, clothing and rent in May; he joined in August.

It is not known how many employees not in the union were encouraged to stay out of the plant

## I HAD TO EARN MORE MONEY

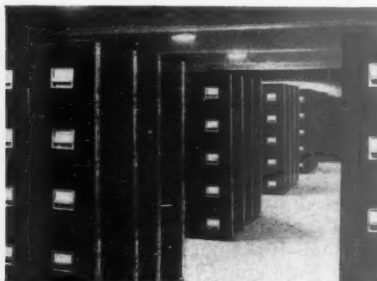
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## UNIONS GET SET FOR MORE STRIKES

*continued*

and to join the union through financial assistance. However, Emil Mazey told a group of Detroit civic clubs at the end of 1956 that the strike, up to then, had cost the UAW \$10 million. He added: "If the more than 2,000 Kohler strikers paid dues to UAW for 250 years it would not make up for the amount the union has spent at Kohler."

## UNEMPLOYMENT COMPENSATION

Unions would like to have strikers receive unemployment compensation, and are working hard in that direction. If such payments are allowed, an employer will, in effect, be financing a strike against himself, since he pays the taxes which make up the unemployment compensation fund in his state. Furthermore, in most states, the greater the amount of benefits paid to his employees, the higher his tax rate.

The Michigan Supreme Court ruled a few weeks ago that 11,000 Ford Motor Company employees in the Detroit area are entitled to \$1 million in unemployment compensation for the three weeks they were laid off in 1953.

The layoff resulted when the UAW, which also represents the Detroit workers, struck a key Ford Motor Company parts plant at Canton, Ohio, while pressuring Ford into granting concessions in the middle of a five-year labor agreement. Concessions ultimately obtained benefited all Ford employees under the UAW contract.

Ford officials are considering appealing the decision to the U. S. Supreme Court in an effort "to prevent unions from using state unemployment compensation funds to finance strikes against Michigan employers who provide those funds."

Unions complain that only two states—New York and Rhode Island—allow unemployment compensation payments to strikers, and only after they are on strike two months. Some states, however, will permit the payments if the strike is converted into a lockout by the employer.

On this point, some 44,000 em-

ployes who struck Westinghouse for months in 1955-56 were looking forward to receiving some \$10 million in unemployment compensation. A state administrator had ruled that the strikers were entitled to compensation because the strike became a lockout when the company refused the governor's proposal that the issues be submitted to arbitration.

When a court decision reversed the administrator and denied the payments, an official of the striking International Union of Electrical Workers pointed out that the union helped to elect the governor (who appointed the administrator), and blamed the adverse decision on the union's failure to "elect proper judges."

## STRIKE BALLOTS

Whether to require approval in a secret vote of all employees, both union and nonunion, before a strike can be legal has been a matter of considerable recent discussion. President Eisenhower proposed such an amendment to the Taft-Hartley law in 1954, but has not renewed the suggestion.

A test of whether an employer can insist on such a contract provision was made in the Supreme Court by Borg-Warner Corporation. The court held that inclusion of a strike ballot in the contract is a proper subject for bargaining, but that, because it involves the internal operation of the union, the company may not insist on it.

## MASS PICKETING

The Supreme Court has held that unions are liable for damages when they picket in a manner which prevents individuals who wish to go to work from doing so. The court upheld a \$10,000 judgment against the UAW awarded by a jury to an em-



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## UNIONS GET SET FOR MORE STRIKES

*continued*

ployee of a copper company in Decatur, Ala. The employee, Paul S. Russell, complained that union pickets, during the strike, prevented him from entering the plant for five weeks. The \$10,000 judgment covered "mental anguish" and \$500 in lost pay.

Ridge Glass Company, Kingsport, Tenn., in 1956. He said they sued to recover wages they would have earned during the rest of their lifetimes.

The union lost its bargaining rights 10 months after the strike started, but continued paying strike benefits another 11 months, for a total of \$450,000, Mr. Feller said.

## STRIKERS' VOTING RIGHTS

A union's ability to hold its bargaining rights at a particular business location, even while prolonging a strike, will be strengthened—and the ability of those on the job to remove the striking union will be weakened—if a provision in pending labor-management legislation is passed.

This is an amendment to the Taft-Hartley law which would permit all persons on strike for economic gains to vote in any Labor Board election to remove the union or substitute another as bargaining agent. Present law allows only those strikers to vote who have not been permanently replaced in their jobs.

## STRIKE VICTORY PROMISE

A union leader's promise to union members that they will win a strike and not lose their jobs is not a contract, and unionists may not sue for breach of contract if the promise is not fulfilled.

A Tennessee court ruled a few weeks ago that a union leader's speech is not a contract; that even if it were, he could not bind the union; and furthermore, the union members were in effect suing themselves when they sued their union.

Attorney David E. Feller, who represented the United Glass and Ceramic Workers in several test cases, said some 400 damage suits had been filed against the union by strikers who lost their jobs in a strike the union lost against Pine

## STRIKE TRENDS

In the past 10 years there have been between 3,400 and 5,100 strikes a year. Each year they involved between 1.5 and 3.5 million employees, who were idle between 22.6 and 59.1 million days. The average time lost per striker ranged from 10 to 17½ days.

Most of the strikes, and the longest ones, involved wages and fringe benefits. In 1957, for example, the Bureau of Labor Statistics found that those issues were involved in more than 55 per cent of the strikes. The strikes involved 57 per cent of all strikers, and were responsible for almost 76 per cent of the man-days of strike idleness. They averaged 32 days in length.

Last year's estimated 3,400 strikes was the lowest number since World War II. However, the 2.2 million workers involved and the 23.5 million man-days of idleness were higher than 1957 and several other postwar years.

## STRIKE COST: UNION VIEW

Union leaders say that the mathematical logic that some critics use to argue against a strike sounds convincing, but misses the point.

It is pointless, according to the AFL-CIO's monthly Collective Bargaining Report, to argue that a factory worker earning \$80 a week would have to work about 40 weeks to make up the loss in wages suffered during a two-week strike, as





KENNETH PARKER, CHAIRMAN OF THE BOARD, THE PARKER PEN COMPANY

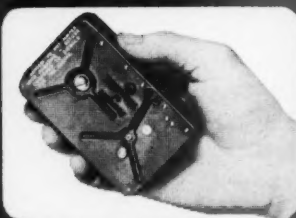
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## UNIONS GET SET FOR MORE STRIKES

*continued*

suming that the strike is settled with an increase of 10 cents an hour.

"The important fact," the publication says, "is that, even considering this potential loss in income, workers feel strongly enough about preserving their union and improving their conditions of employment that they are willing to sacrifice current income to obtain a just settlement of their demands."

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Here is what the International Chemical Workers Union tells its members in its "Strike Manual":

"Strikes can be won. It may take 30 minutes, a week, or 30 days. It may take longer."

"No strike is ever lost completely. Any competent history of the labor movement shows above all that it was upon the shambles of apparent complete destruction that the foundation of our strong labor movement was built."

"The essential items in gaining a victory in a strike are: planning, coordination, courage and confidence."

"No two strikes are alike, but the key in every strike is the same: the individual worker and his determination to stand by his union." **END**

## STRIKE STRATEGY

AN AFL-CIO publication offers this check list of questions which a union must consider in a strike situation:

**Adequate preparation.** A poorly planned strike can wreck the union.

**Informing the membership.** Communicating current information can help generate a feeling of confidence, maintain strike morale.

**Legal status of strike.** Federal, state and even local laws can affect legality of actions taken before and during the strike.

**Health, welfare and retirement benefits.** Know how a strike will affect benefits. Try to work out arrangements for preserving the workers' stake.

**Support of other unions.** Strike assistance often is available from the central labor body in the area and other unions. Some types of assistance may be limited by Taft-Hartley.

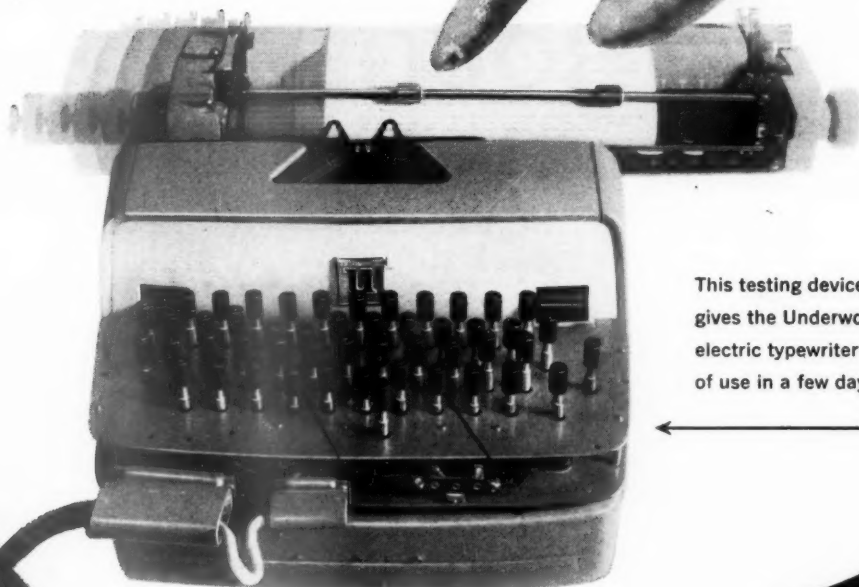
**Support of local community.** Community attitude can mean the difference between winning and losing a strike. Explain strike background to the local church, veterans, fraternal and civic groups. Sometimes enlightened businessmen can be persuaded to support the strike or at least neutralize employer opposition to it.

**Easing strikers' financial burdens.** Arrangements often can be made with local merchants, banks, insurance companies and credit agencies for special consideration to strikers in meeting financial obligations.

**Special assistance to strikers.** Social service agencies usually are ready to assist. The AFL-CIO Community Services Committee and its local representatives will help obtain this assistance.

**Utilizing channels of publicity.** Any strike is news. Make sure that the union's point of view is fully understood by news outlets.

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# HELP YOUR MESSAGE GET THROUGH

Knowing why communication can fail is a major step toward making it work

BY B. BALINSKY AND RUTH BURGER

IDEALLY, COMMUNICATION should end with complete understanding between the parties involved. Often it does not.

Why should such a simple thing as talking with another person be so difficult?

There are seven possible sources of trouble.

- ▶ The person interviewed.
- ▶ The interviewer.
- ▶ The situation.
- ▶ Personality.
- ▶ Language.
- ▶ Prejudice.
- ▶ Impatience.

To understand how these seven barriers interfere with effective communication and discover how to overcome them, consider a simple, everyday example:

Assume that you have been asked to recommend someone in your department for promotion. You're thinking of giving Joe your vote, but you want to feel him out first. You want to be careful not to reveal any special interest. You may want an out if anything goes wrong. The last person you recommended was turned down and you felt it reflected badly on your judgment.

Joe is an employee with whom you speak, at least casually, almost every day. But today as you pass his desk you say, "Joe, please step into my office for a minute," and you walk on.

## Joe as a barrier

As Joe puts aside his work and follows you into

---

*This article is adapted from a book by B. Balinsky and Ruth Burger, "The Executive Interview," copyright by Harper Brothers and scheduled for publication in April.*

your office, he may be saying to himself: "What did I do now?" or "Am I on the carpet for something?" His mind is casting about for possible explanations. His anxiety as he walks into your office is natural. Until he is reassured, either by your words or by your manner, or a combination of both, you may assume that his defenses are up.

The seasoned interviewer, therefore, usually assumes that when someone walks into his office he is busy defending that little world inside his own skin, right up to the moment when he receives some signal which he can interpret as a sign of truce.

Once the defenses come into play they block any real understanding. A man who is busy defending himself cannot hear what you are saying and is in no position to modify his thinking to fit yours.

It is a well established psychological principle that feelings of insecurity will distort the perception of what one hears. Several things are contributing to Joe's insecurity at the moment. He can easily have been thrown off balance on three counts, before the conversation even starts:

- *First*, you are his superior.
- *Second*, you know what you want to discuss and he is still in the dark.
- *Third*, you have picked the time of the interview. You could select a time when you were in the mood for a talk, or you wanted to get it over with now.

This may be far from Joe's frame of mind. He may be having troubles at home. He may have been just at the point of solving a tough problem and will have to start over when he gets back to his desk. He may be out of sorts, or in general not feel like talking to anyone.

If any or all of these things are true, it's tough—





not just for Joe—but for you. The interview will be an ordeal for Joe and take more out of him than it should. You will need more than ordinary skill to get to him, no matter what the business under discussion.

Defense reactions do not always manifest themselves in the same way. One person on the defensive will merely keep quiet. An aggressive person will become argumentative. A timid person will become more timid and nervous. But whatever the outward manifestations, you can be certain that two things are happening:

A wall is going up that will make it impossible for Joe to hear objectively what you have to say, and the unconscious is trying to establish a disguise which will hide what he is really thinking and feeling.

One of the best ways of easing the tensions and anxieties which a person brings into the interview is to let him know as early as possible what you wish to discuss. Most of Joe's difficulty stems from the fact that he is not sure what you want to talk to him about. As your subordinate, he may feel that you hold all the cards, or that you have an edge on him. For one reason or another he may not feel completely free to express what's on his mind. All of these problems add to his own sense of frustration and block his ability to express himself or even to relax.

#### **You as a barrier**

Most of the things that are troubling Joe are also troubling you. They are, after all, natural and human problems. You have your own emotional hot spots. And while you have the upper hand in the way of status and timing, many things may trigger your own anxieties and hostilities.

Your problem is complicated most of all by the fact that it is up to you to maintain control in the situation. Particularly, because there is nothing that you can do about Joe and his unconscious reactions, except to be aware of them and understand them, your most difficult assignment is to keep your own personality in check.

You may, for example, be accustomed to making quick judgments and decisions. Giving orders or issuing instructions may be an everyday occurrence. In the interview situation you will block all flow of communication from the other side unless you learn to control these tendencies.

The more glib and comfortable you feel in giving advice or instructions, the more likely you are to be guilty of this. It might also be taken as a rule of thumb that the more you get that cozy glow of getting to like yourself, the safer it is to assume that you are talking to deaf ears. In almost inverse proportion to the degree to which you impress yourself, you are failing to sell the fellow on the other side of the desk.

It has been said that the greatest price executives pay for success is the inhibition which they must put on the very qualities which brought them to the top. The higher you go up the executive ladder, the greater the need to concentrate on getting the other fellow to express himself, and the higher you go, the harder this is to do.

One of the most difficult things to develop is the knack of guiding the interview unobtrusively. Many interviewers are afraid that they will be giving up the driver's seat if they give up the floor. The two by no means go together. You can gently guide the course the interview will follow without resorting



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## HELP YOUR MESSAGE GET THROUGH *continued*

### Viewpoint of the other person is a factor in understanding the message

either to oratory or cross-examination. In fact, if you are to be successful, you must rid yourself of both these habits.

Ideally, you should forget yourself and the impression you are making and concentrate exclusively on the other fellow. How does he feel? What is he thinking? Does he understand what I am saying? What is he trying to say? What unexpressed thoughts lie behind the things he is able to articulate?

The novice interviewer falls into the same trap as the interviewee. His overconcern with himself—with whether or not he is making a good impression; with whether he is showing himself in his best light—will hinder his own best performance.

You must learn not to think about yourself in order to be better able to see things from another's vantage point and hear things in terms of his frame of reference.

#### *Personality as a barrier*

Whether you are aware of it or not, you probably have a special "business voice."

If you have developed a gruff way of speaking, you cannot expect to be successful in an interview. You may be fine as a disciplinarian. If you have learned not to show feeling, you will also have to change. You cannot afford to be cold in the interview situation.

Suppose Joe just sat down and you told him directly that you were recommending him for a higher position. If Joe were a well integrated personality, he would need no more discussion with you. But if he were young or if he had any misgivings about whether or not he could handle the job, or if he were the kind of fellow who took a little time to get accustomed to a new job and then did extremely well, he would want to talk further with you. You would have to pace yourself to his speed.

You must be able to shed your own ways of reacting and listen attentively to Joe. He is different from you and will behave differently.

It is no easy matter to dissociate yourself from your own attitudes and concentrate on the other fellow's. In fact, it is almost impos-

sible to do this unless you can be really honest in evaluating yourself, your weaknesses, and your own personal values and prejudices. The interviewer too tied to unconscious defenses will be a poor one.

The interviewer can be taught techniques but his manner of handling them and his behavior toward the interviewee are determined by his own personality and his own ability to leave himself outside the door.

Obviously, it is easier to accept all these principles logically than to apply them emotionally. No one will argue with the wisdom of the caution against becoming defensive. However, it is easier to say than to do when our values or our ideas are challenged. Psychologists remind us that detachment from self is particularly difficult for the insecure person. The degree to which you can actually be objective about yourself may well be a good measure of your own personal maturity.

If you find that your interviews often become sidetracked, examine your emotional sore spot. You must school yourself to resist the temptation to argue or to defend yourself when your beliefs are under attack.

#### *The situation as a barrier*

If any one generalization can be made about both parties in an interview, it is that their major preoccupation is with putting their best foot forward. If the interviewee is a job applicant, he wants to sell himself. If he is an employee who fears that he has been unfairly accused in a grievance situation, he will be overly concerned with convincing you of his innocence.

If you have an unpleasant message to deliver, you are reluctant to have him think that you are a bad guy. Whatever the situation, all of us are concerned with appearing in the best possible light. We especially do not want a stranger to see any weaknesses in us.

Consequently, before you can get information from an employee or get your own point across to him, you must establish an atmosphere of acceptance so that he feels trust in you. This depends first upon your own attitude; second, on your skill in communicating this attitude. A

friendly attitude is wasted unless the other person can feel it. Your job is to get that feeling across.

You must remember that you are the one carrying the ball. You must break down the barriers or they will continue to get in the way of successful progress of your interview. You are the main organ for building a reciprocally satisfying bond and a working atmosphere.

Psychologists are familiar with the behavioral signs that are the tip-off to mounting tension. Learning to recognize the first early signs of discomfort which are the clue to anxiety will help to prevent its full bloom into an outburst of anger or some other emotion.

A skilled interviewer can steer clear of dangerous waters by watching for this storm signal both in himself and in the other fellow. You may discover from experience, for example, that a particular tone of voice puts you on edge. Or perhaps you will notice that a mannerism of your own puts others on edge. If you are alert to the physical signs of discomfort, such as a shifting around in the chair, nervous movements of the hands and feet, you can often remedy the situation before it gets out of hand.

You have probably often been told that the interviewer must make the visitor feel at ease. This single bit of advice has probably done as much harm as good. If, in attempting to make him feel at home, you rely on synthetic good-fellowship or an artificial kind of behavior, you will do more to increase his tensions than to reduce them. Nothing will put the interviewee so much at ease as your remaining in character.

An invitation to sit down, an offer of a cigaret, a remark about the weather—all these are fine if they are not overdone and if you can carry them off naturally. However, none of these maneuvers will work if they are perceived as maneuvers. They will, in fact, make the listener more suspicious.

#### Language as a barrier

"He speaks my language" seems to imply to most people "He's on my side." This is something you should never forget if your work brings you into contact with people of lesser education than your own. Guard against the use of words which are outside the vocabulary of daily conversation. It may not be necessary to use the vernacular, but it is well to be certain that the words you use are fully understood.

Even agreement on the definition  
(continued on page 68)

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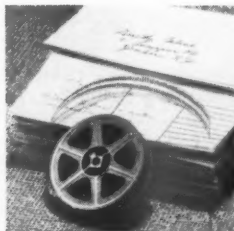
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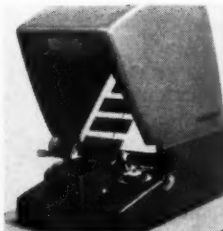
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## HELP YOUR MESSAGE GET THROUGH *continued*

### Prejudices often play big part in jumping to the wrong conclusions

of every word used in the conversation is no guarantee of complete understanding. All of us tend to assume that everyone uses words the same way we do. In taking understanding for granted, we lay our own trap for misunderstanding.

It is conceivable that you might talk to Joe for 10 or 15 minutes and end up with complete misunderstanding on both sides.

The most dangerous factor is that each would probably be confident that he knew exactly what the other had in mind. Neither would bother to question the other directly—being completely unaware of any possible differences.

How can this kind of misunderstanding be avoided?

First, your manner should be warm and accepting.

Second, by anticipating the possibility that your words may have different meanings you will be on guard against misunderstanding. By using certain techniques as reflections of feeling and interpretation as you go along, you will be certain that the two of you mean the same thing.

For example, you may say, from time to time, "Is this about what you mean. . . ." or "If I understand you correctly, you feel that. . . ." By this means, you are minimizing the chances of drawing the wrong conclusion and at the same time indicating that you are sincerely interested and making every effort to understand.

#### Prejudices as barriers

Everybody considers himself tolerant, broad-minded, open-minded and objective. Yet each of us has prejudices of which we may be only dimly aware.

These prejudices can easily color our judgments and our evaluations of people.

For example, if you are convinced that all problems are due to alcoholism, you may never look beyond the simple discovery that a man takes a few drinks at dinner.

Mannerisms of dress or speech also affect us. We are all impressed by a neat appearance, but if you look at your best workers, your most successful employees, you will probably discover that they come

in a variety of shapes and sizes. Prejudices are equally dangerous whether they attract us to or repel us from the other person.

Milton Mandell, chief, Management Testing Unit, U. S. Civil Service Commission, points out that it is easy to be inclined toward the job applicant who is neatly turned out, well spoken, well groomed and pleasing in manner. But, he warns, this could also be a good description of a confidence man. We run the risk of going overboard in one direction or another if we make up our minds on the basis of physical appearance.

Before you decide that you can

#### "New inflation weapon in sight"

as part of government's  
effort to promote  
sound money policy

SEE PAGE 38

trust your own first impression, ask yourself how you would answer:

—new workers just don't have the same interest in the job as the old-timers do.

—skilled craftsmen have better personalities than unskilled laborers.

—a man who doesn't look you square in the eye is shifty and dishonest.

—redheads are hot-tempered.

—fat men are jolly.

—women are more sensitive than men.

—employers are out to see how much they can get out of you for nothing.

None of these assumptions is necessarily correct.

The big danger is that, if you are unaware of your own prejudices, you can't know the part they play in your reactions to people. Particularly in forming first impressions, psychologists warn us against what is called the halo effect.

Your mind takes hold of one specific characteristic and then sees the rest of the personality in terms

of it. This pitfall is particularly important to watch for in the hiring interview, where you come in contact with strangers.

#### **Impatience as a barrier**

Most of us are constantly forming opinions and reaching decisions even while we listen. As the sentences hit our ears we are unconsciously pigeonholing them as true or false, right or wrong. This process must be checked if we are to listen with open minds and reserve our final judgment until we have heard all the facts.

For example, a salesman telephones the head of the shipping department to find out why the customer hasn't received his order. The latter says "I'm trying to do the best I can, but I'm just overloaded down here. I'll see what I can do about it this afternoon."

Without asking another question, the salesman jumps to one or more of several conclusions—all without waiting for the facts:

—He's not overloaded; he's just lazy.

—He's not interested in whether or not I lose an account.

—He'll never get that shipment out today unless I keep nagging him.

—Those fellows down in shipping are all alike.

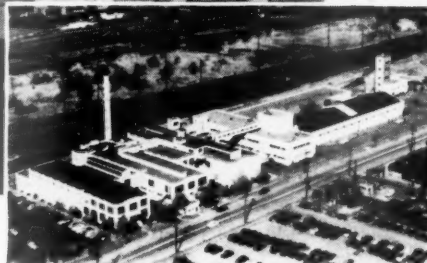
Sometimes we rush a decision because time is short. But the longer you put off making up your mind, the better chance you have of getting all the facts. As Heywood Broun once said, "Once a man takes sides he begins to see a little less of the world." And he also hears a little less of what others have to say.

In the interview situation you owe it to yourself and to the other fellow to reserve final judgment until you have all the information you can reasonably expect.

Remember that the way you see the facts as of any given moment may be influenced by accidental or temporary factors. A second look often reveals another possible interpretation. Rather than rush into a premature decision, just because time is running out, postpone it until after a second meeting. Some of the barriers may naturally dissolve in the interim. Opinions formed too early in the interview may become an impenetrable block against unbiased, impartial judgment.

This barrier, like most others, can be overcome by self-control. If we approach each individual with the sincere desire to know, to listen, and to understand, we are ready to build a strong bridge across which two-way communication can flow. **END**

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# OUTLOOK FOR A NEW TAX SYSTEM

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These factors may compel changes  
in levies on you and your business

MACHINERY for the most drastic revamping of our tax laws in recent years may soon be set up.

It will begin with a broad, critical examination of the federal tax structure and the concepts on which it is based. The outcome may affect the future and nature of your business and investments. The impact probably won't be felt immediately, however. Comprehensive overhaul would require years to complete.

The ultimate aim of the projected tax study is to draft a tax code which would:

- ▶ Provide a source of ever increasing federal revenue.
- ▶ Spread the tax burden so that more people pay.
- ▶ Stimulate investment while helping to smooth the surges and dips in the economy.
- ▶ Increase fairness in treatment and effect.
- ▶ Be simple and neutral.
- ▶ Reduce income tax rates.

Immense obstacles must be overcome to reach these objectives. But powerful forces are now demanding a scrutiny and a recasting of the U. S. tax laws.

First, federal spending has climbed relentlessly from about \$500 million a year at the turn of the century to near \$80 billion a year today. Without a sharp and unlikely change in public attitudes and international tensions, continuing high expenditures seem inevitable.

Spending has caught up with and passed tax revenues. The federal debt stands at \$285 billion. Concern is increasing that the pace of economic growth and resulting revenues simply will not cover the cost of future expanded federal spending and that deficits will breed further inflation.

Second, our federal tax system is a concoction of emergency laws whipped up to meet the costs of the depression of the 1930's, then the tolls of World War II and the Korean war. More than 80 per cent of the revenue comes from income taxes on individuals and corporations. This source shrinks drastically

in times of recession and, in both good times and bad, the high rates leave comparatively little savings or incentive for investment.

Congress has granted relief against the high rates in recent years through deductions, exemptions, tax credits and exclusions so that now less than half of personal income is subject to federal taxes. Each act of preferential treatment brings more demands for special benefits from other taxpaying groups who believe their burden, too, should be lightened. Although national income is rising, tax revenues are not keeping pace.

Finally, the probable future inadequacy as well as the inequalities in our system are recognized on the highest levels of government and are now forcing action to meet the growing problem. In the remaining months of the Eighty-sixth Congress, it is probable that first steps toward a solution will be taken.

The key initiator and policy-maker in the federal tax area, House Ways and Means Committee Chairman Wilbur D. Mills, Democrat of Arkansas, seems determined to subject our tax system to a searching examination to see whether the sought-for objectives can be attained.

Though no final decision has been made as to the exact timing and nature of the extensive study, the aims of more revenue, stimulated investment, fairness, simplicity, neutrality, broadened base and reduced rates are clear. Probably the Ways and Means Committee, which must ultimately write new tax statutes, will administer the study through a number of subcommittees and advisory groups in cooperation with the Treasury Department. New authorization to finance the study, new subcommittees and staff experts will probably be asked for later this year.

No reform can be expected immediately for several reasons. Any extensive overhaul or change in tax policy and concepts would take months of research and investigation as to its probable effects. Tax



Chief advocate of broad federal tax study is influential Chairman Wilbur D. Mills (D-Ark.) of the House Ways and Means Committee



FRED J. MAROON

reform would require public support. Though everybody complains about high taxes, few people sense the dangers and inequities the future may bring. Opposition from beneficiaries of special provisions and from those who favor stimulating only consumption and not investment would have to be overcome.

Finally, the tax-writing committees will be occupied in the immediate future with writing a new formula for taxing life insurance companies, with technical amendments, revisions in the taxation of cooperatives, and in treatment of percentage depletion allowances, corporate reorganizations, partnerships, estates and trusts and possibly foreign investment.

As President Eisenhower said in his budget message, "as the budget permits, additional reforms should be undertaken to increase fairness . . . reduce tax restraints on incentives to work and invest and . . . to simplify the laws."

Most of the goals of broad-scope tax change are so interrelated one could not be achieved without another. The ways for reaching the objectives, too, are far from clear. But here are some of the considerations involved for each of the goals:

#### 1. Increasing federal revenue

Uncle Sam clearly is living beyond his means. Federal spending rises persistently to meet the multiplying whims as well as the necessary demands for governmental services with little more than hope that anticipated income will pay the bills.

The shortcomings of federal revenue forecasting were dramatically pointed up recently. In January 1957 President Eisenhower predicted in his budget for fiscal 1958 that receipts would total \$73.6 billion. Actual receipts—depleted by last year's recession—totalled only \$69.1 billion, a \$4.5 billion forecasting error. Usually the estimate comes closer, but rarely does it turn out as estimated the year before.

In an age when nuclear war would suddenly demand

## Six goals of FEDERAL TAX REFORM

More revenue

Broader tax base

Investment for growth

Fairness

Simplicity

Lower rates

## Special provisions of law now leave \$210 billion of our income untaxed

an enormous drain on national revenues and resources, we have no automatic plan for quickly bringing in money.

Even if future peace could be counted on, no master program operates to assess and balance the federal income and outgo on a long-term basis. In other words, we just don't know if we'll have enough money to do either what we want to or what we have to one year or five years from now. This is one of the underlying problems that a broad-gauge tax study would probably contemplate.

Two main theories of taxation have been applied to our system in modern times: Taxes should be based on the ability to pay; and taxes should be related to benefits received by the taxpayer. The first theory has gained in support on the federal level. Individual income taxes based on ability to pay have gone from about 20 per cent of the total federal revenue to about 50 per cent in the past 20 years.

Concern is widespread that individual income tax rates which rise to 91 per cent and corporate income taxes up to 52 per cent already are too high and could not safely be raised to gain more revenue even if this would produce much more. If all taxable incomes over \$10,000 were confiscated it would only add about \$4 billion to the whole federal tax take. On the other hand, a single basic rate of 24 per cent on all taxable income would raise about as much money as do the progressive rates under our present system.

Another theory of taxation—that every citizen should help support his government—has lost favor among the politicians. This in part has led to increased exemptions, deductions and credits which have removed many people from the tax rolls, narrowed the tax base and put more burden on the remaining taxpayers.

About 60 million tax returns will be filed on 1958 income. Only about 48 million of these will be returns on taxable income. Though personal income for 1958 totalled about \$355 billion, taxable income only comes to around \$145 billion because special provisions in the law narrow

the tax base. If many of the special treatment benefits were eliminated and the tax base could be broadened to about \$175 billion, a single tax rate—presently the lowest—of 20 per cent could yield about the same revenue produced today with progressive rates.

Another tax idea popular in conservative quarters got a big push last year from Vice President Richard Nixon, former Commerce Secretary Sinclair Weeks and Postmaster General Arthur Summerfield. The idea is a general manufacturers' excise tax at a flat rate. Proponents have pointed out that such a tax could substitute for the present selective and often arbitrary excise levies, could be collected from relatively few sources and would be more dependable than income taxes in recession.

However, opponents say it would raise prices, and that this would amount to an unfair tax on lower-income consumers.

Still another proposal sure to get attention is the idea of withholding taxes on dividends and interest income as tax withholding applies to wages and salaries. Some \$5 billion in dividend and interest payments are believed to be unreported for tax purposes. This could yield from \$300 to \$500 million. The idea won House approval a few years ago, but was not allowed out of the Senate Finance Committee because senators felt it would place a collection hardship on corporations, banks and other institutions as well as being tough on recipients in low tax brackets who otherwise escape tax liability because of exemptions.

These are some of the main ideas and theories a general tax study will evaluate. Congressional action, at least in broad terms, already can be foretold.

The philosophy of income taxation based on the ability to pay is so firmly implanted and so generally acceptable to policy-makers that there is little chance the major outlines and theory will be altered. It will remain as the primary source of revenue, though rates probably will be changed from time to time, and the rate structure could be altered. President Eisenhower has held out the prospect of tax reform

and reduction in the foreseeable future if the budget is balanced. His budget chief, Maurice Stans, indicates taxes would have to be raised if the deficit grows too large.

Many members of Congress and Administration officials feel that economic growth will not fill the fiscal shortage and build surpluses unless spending programs are curtailed. They are convinced that paying for federal programs by creating further deficit and inflation adds to the deterrent effects on savings and thus hinders economic growth. But they also fear the damaging effect on savings of any further rise in taxes levied on a narrowing tax base.

### 2. Spread the tax burden

The ever narrowing tax base has commanded the attention of many tax experts, including Ways and Means Chairman Mills. He has insisted that a broad tax base is essential because only by spreading the tax load as widely and fairly as possible can enough revenue be produced without undermining incentives. A broad-based system is necessary also to make citizens aware of the cost of federal programs. He has included the idea of a broadened base as a major objective in any re-examination of the federal tax system.

However, each Congress writes new escape hatches into the tax laws to ease the burden on selected taxpayers. So taxpayers with the same total income often pay different amounts of taxes.

For one reason or another more than half of the personal income of U. S. citizens escapes taxation. Personal exemptions reduce the income subject to tax by roughly \$90 billion. Though the individual exemption allowed in past years has often been higher than the \$600 permitted today, use of the exemption has been liberalized so that double exemptions are given for those more than 65 years old, the blind, and persons under 19 and even those over 19 if they are attending school.

Allowable deductions further cut the taxable income by roughly \$35 billion. Four major kinds of deductions have been granted. One kind serves to subsidize certain groups. Home-owners, for example, can deduct interest paid on their mortgages. Charitable, religious and educational organizations are encouraged because contributions to such groups are deductible. Another federal deduction is taxes paid to state and local governments. A third kind serves to recognize large

emergency expenses, such as medical costs. The fourth form of deduction in the opinion of some tax theorists is the only one necessary—that is, deductions of the costs of earning income. This form of deduction, too, has been criticized when it includes the charging off of night clubs and vacation trips as business expense.

Excluded from taxation are certain social insurance payments such as federal and state social security benefits and railroad retirement benefits. Ignored for tax purposes is the value of food produced and consumed on farms or the stock-in-trade some merchants take from their business for personal use.

Congress also provides special exclusions and tax credit on a portion of dividend income received by the shareholders. It has also given special tax exclusions or credits for unemployment compensation, veterans pensions, retirement income and sick pay.

Some of these provisions have become sacred cows. Despite loss in revenues or the possible inequities involved, some exemptions, deductions and exclusions Congress almost surely will keep as a permanent part of the tax structure.

Repealing some provisions would add much more breadth to the tax base than doing away with others. Disallowing amounts paid in state and local taxes as a reduction could add about \$5 billion to the tax base.

Eliminating the tax credit on dividends received would add only a few hundred million dollars to taxable income.

Lawmakers who have looked into the practicalities involved realize that getting any large revenue increase (aside from raising rates) means plugging leaks that are politically popular.

Many believe the only way rates can be reduced is by tying rate cutting to base broadening. In the words of Mr. Mills:

"A great deal of revenue could be provided by a broadening of the tax base, a removal of some special deductions and preferences and an increase in rates on some specially favored income."

### 3. Stimulate investment

A most vital requirement over the long run is that our tax system provide the incentive to save and invest.

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(continued on page 76)

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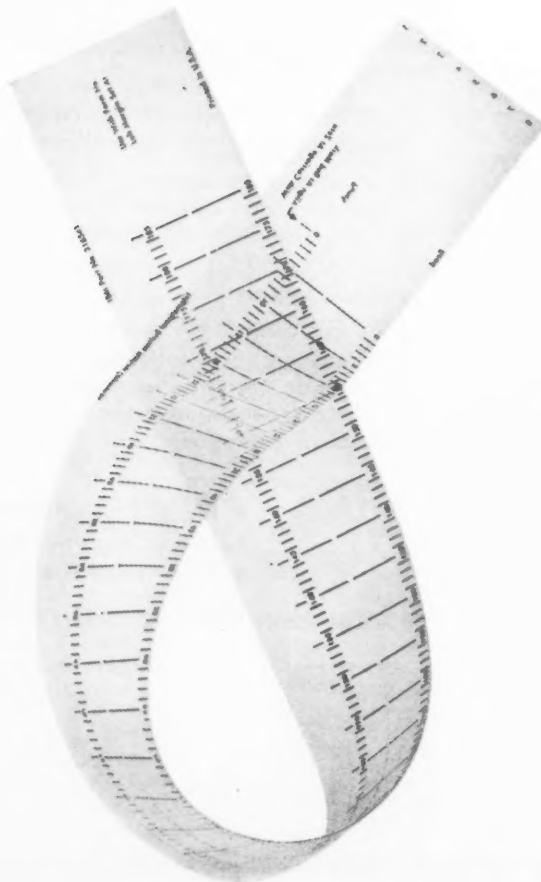


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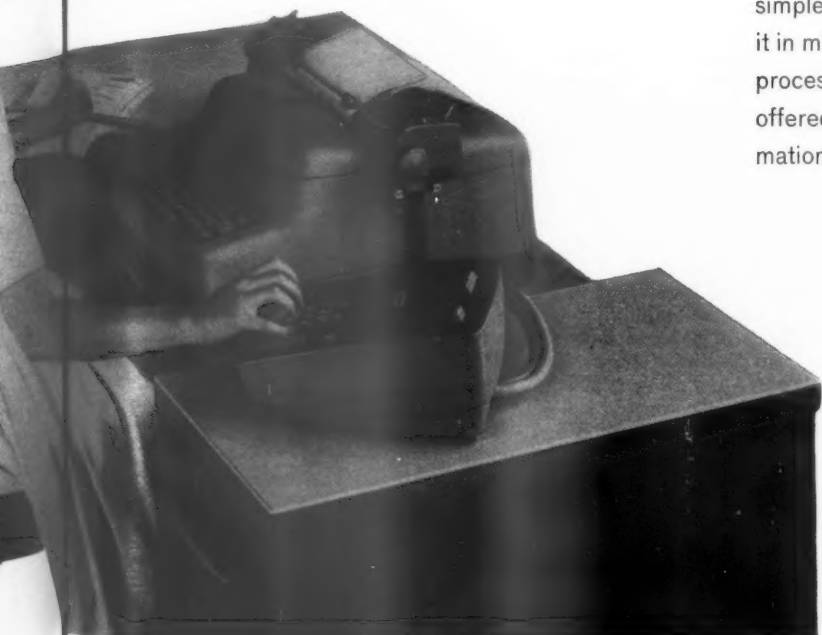
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## Lower rates and liberal depreciation would encourage growth of economy

supply jobs for a growing labor force, investment is necessary.

"Any revision of our tax laws," Mr. Mills has said, "should take account of the fact that we want and need a growing economy. To obtain this growth we must, of course, encourage investment."

A two-pronged stimulant to saving and investment would be reduction in rates and liberalized depreciation rules. Critics of unreasonably high rates point out that they produce comparatively little in revenue since they apply to only a small group. Critics also argue that restraining potential investors from risking their funds in ventures that would provide economic growth restricts the revenue that would come from such expansion.

The pace of technology and high costs of production show the need for tax write-offs for plant and equipment that reflect realistic obsolescence factors. Present depreciation schedules specify as long as 33 years to write off some machine tools and 60 years for some buildings and installations.

Mr. Mills has indicated that the period over which capital outlays can be recovered out of profits before taxes should be reviewed. He has also noted that care must be taken so as not to build up too much unused productive capacity. Much blame for the late recession was put on overcapacity, just as the depression of the 1930's was partly blamed on the build-up of productive capacity in the 1920's.

While recognizing the need for investment, such questions as these would be raised in any tax study:

Should investment be encouraged in ventures that involve substantial risk and rapid increase in economic output?

Or should a more gradual kind of growth, usually achieved through use of bonded debt, be encouraged?

The element of stability in economic growth has gained increasing emphasis. However, getting quick congressional action and public support for measures that could aid stability—that is, growth without inflation—is difficult.

For most citizens, nothing short of war could justify an increase in taxes, especially the kind that might

restrain inflation. And reduced federal spending, as Budget Director Stans has said, finds more favor in generalities than in specifics.

On the other hand, decision that tax reduction is most appropriate to economic growth and stability signals the start of lengthy debate as to which taxes will be cut and how.

Our tax system is constructed so that it collects more in good times and less in bad times. Mr. Mills and other members of Congress believe that, besides keeping this flexibility, Congress must be ready to appraise the tax set up from the standpoint of its economic influence and alter it on a short-term basis when necessary without upsetting the whole system and changing provisions permanently.

### 4. Increase fairness

With our voluntary, self-assessment system of taxation, the standard of fairness is essential. On this, all policy-makers can agree. The difficulty lies in balancing needs and objectives as well as recognizing custom, coordinating state and federal laws, and maintaining efficient administration by the Internal Revenue Service.

Moderate and progressive rates for taxing income seem to be the most acceptable principle of fairness the tax policy-makers favor and seek. For some kinds of income what is proper treatment is more subject to controversy.

Criticism as to fairness has been leveled against many tax provisions. For instance, depletion allowances granted to natural resource industries permit producers to deduct from gross income certain percentages of their income on the theory that exploration costs are high and the resources are depletable.

Special status is given to income received from selling shares of stock, real estate and other types of capital assets. If such assets have been held for more than six months only half the profits is subject to tax and the rate on profits from sales of the assets goes up to only 25 per cent.

Differential treatment is seen as necessary for some different kinds of income produced in special ways. Most of the criticism, however, has

been directed at the extension of depletion allowances and capital gains treatment to more and more industries and transactions.

According to Mr. Mills, some of the most difficult decisions involve requests for special treatment or benefits or incentives which, though in most cases worth while, must be limited to maintain fairness in the tax structure. A review of some features of this type is promised in any re-examination of the tax system.

The split-income provision, which gives a married couple the right to file a joint return and split their total income, has also been attacked. It gives a married taxpayer an advantage over a single person and it offers more reduction to a higher bracket taxpayer. This provision was adopted because some states with community property laws treated the income of husband or wife as if half belonged to each. So couples had been splitting incomes and filing separate federal returns in those states. This gave them an advantage over taxpayers in other states. Though income splitting costs more than \$4 billion a year in lost revenues, there is almost no chance it will be repealed.

Many self-employed business and professional people believe the tax system treats them unfairly as far as insurance and retirement programs are concerned. They must finance these programs from income remaining after taxes are paid. In contrast, many wage and salary workers have their insurance, and retirement, paid at least in part by employers.

There is more chance that Congress will permit self-employed persons to exclude from current taxes an amount for retirement savings than that employees will be required to pay taxes on employer contributions to these programs.

### 5. Be simple and neutral

Our Internal Revenue Code is an 800-odd page collection of statutes in highly technical phraseology which even some trained experts have difficulty understanding. It has to be administered by 50,000 employees and requires continual revision just to close loopholes.

Part of its complexity is due to the complicated nature of our economic system and to today's business enterprises and diverse organizations. But policymakers agree simplicity should be sought. Internal Revenue Commissioner Dana Latham, for instance, is seeking new ideas for tax forms.

Our tax system also "should be

as nearly neutral as possible in its effect on decisions made by taxpayers," according to Mr. Mills.

Economic and social decisions should be based on market considerations, not tax considerations. This is a widely held belief, though the tax system presently influences both social and economic decisions. Wedding dates are set and families planned with the thought firmly in mind that a new dependent anytime during the year entitles a taxpayer to the full \$600 exemption.

The highest income tax rates in many instances destroy the incentive to produce. Many top-bracket professional men, businessmen and entertainers decide the monetary return coming from extra effort isn't worth the trouble because the tax take is so huge. They retire young, play golf three days a week or otherwise redirect their energies so they aren't subject to tax.

Tax provisions allowing the transfer of operating losses of businesses also have been cited as causes for decisions based on tax rather than economic grounds. Loss carryovers in some cases have been the major reason why one business concern acquires another—so the tax loss of the acquired firm can offset the tax liability of the acquiring company. This area of the law is sure to be scrutinized in any upcoming general review.

#### 6. Reduce tax rates

Real tax reduction justified on economic, political or social terms means rate reduction.

Though some groups favor reduction only for the lower income tax brackets, key congressmen and Administration leaders favor relief for the higher brackets as well. Mr. Mills, for instance, leans toward a rate structure going from 10 per cent to 65 per cent, rather than 20 per cent to 91 per cent. Rate adjustment seems mandatory in attaining greater economic growth.

Some sort of tax reduction could come within two years, if booming economic conditions provide a budget surplus that could cover the cost. Another recession also might warrant tax-cutting action in the judgment of Congress. Either boom or recession could, depending on other variables, justify tax cuts in the opinion of Mr. Mills and others.

However, permanent rate reduction on a large scale almost certainly would require the attainment of some of the other goals of the prospective tax examination—particularly base broadening and stimulation of investment.

END



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## For small businesses there are many organizations that can be of help

by nine research institutes with a combined volume of about \$85 million a year. Some are endowed, some are sponsored by universities but are substantially independent of them, and all are chartered as not-for-profit corporations. The best known ones are:

Battelle Memorial Institute.  
Stanford Research Institute  
Cornell Aeronautical Laboratory  
Armour Research Foundation  
Mellon Institute Research Foundation

Southwest Research Institute  
Franklin Research Institute  
Midwest Research Institute  
Southern Research Institute

These organizations sometimes serve as consultants, but primarily they work on problems that are inter-disciplinary in character, and cannot be carried on efficiently in a single company. More than half their volume is for the military for whom they do work that is not yet ready for commitment to industry.

To use organizations in this group effectively, one must know their independent specialties, as well as their immediate programs. Some are noted for ceramics and certain types of metals; one specializes in aerodynamics; certain others specialize in electronics or geophysics. However, specific programs undertaken may qualify one of the organizations, not nominally specializing in the subject, for a more direct solution to a problem. Thus, inquiries should be made as to the programs, capabilities and availability of staff before one of them is retained.

### **Government laboratories**

The National Science Foundation lists approximately \$1.9 billion of intramural research by various governmental departments—about one third of the total volume of research in the U. S. Most of this is in support of the military in such service laboratories as the Naval Research Laboratory, the various laboratories of the Air Research and Development Command, and so on. Other governmental laboratories are in direct support of various industries.

The National Bureau of Standards has a distinguished record in providing information on such varied subjects as radio propagation

and building construction. The Department of Agriculture, through its extension program, dominates agriculture research to the point where it's imprudent for private organizations to conduct their operations without reference to this work. Independent governmental agencies, such as the Atomic Energy Commission, conduct some research.

While most of the governmental research facilities are not available to work on specific problems for industrial concerns, what they do is of considerable interest to business.

### **Industry-sponsored laboratories**

Approximately 600 industry associations or cooperatives do some sort of research, on which, it is estimated, they spend more than \$25 million a year. Examples of this type of organization include the American Gas Association, the American Institute of Banking, the American Petroleum Institute, the Association of American Railroads, the Portland Cement Association, and the Structural Clay Products Institute. Research is also sponsored by some professional and technical societies such as the American Chemical Society, American Medical Association and the National Geographic Society.

Some agriculture cooperatives, such as the American Farm Bureau Federation and the Florida Citrus Canners Cooperative, sponsor research. Other cooperative groups, usually business firms seeking common financing or coordination of research, are the Hawaiian Sugar Planters Association, the National Grange and Sunkist Growers, Inc.

In general, these organizations are concerned with industry-wide problems, and their services are generally available only to member companies. A company, however, whose normal field of endeavor would disqualify it from membership, will usually find a cordial reception to inquiries seeking information which is already available.

### **For-profit organizations**

An increasing number of research organizations, some specializing in specific fields, others covering broad ranges of interest, have appeared on the American scene. Some of

them are parts of corporations which have product lines. Others are substantially independent of manufacturing interest. They differ from the consultants in that they have laboratory facilities; they differ from the universities in their full-time pursuit of projects that must pay off; they differ from the research institutes and foundations which tend to solving one-of-a-kind problems.

The oldest of these organizations is Arthur D. Little, Inc., Boston, Mass., which, starting as consulting chemists, has expanded into chemical economics, chemical processes, automation and management consulting. Another organization, but with more of a manufacturing interest, is the Thompson-Ramo-Wooldridge Corporation, where the specialties stemmed from the talents required in modern missile systems.

Many engineering firms are also engaged in consulting and have technical talent available on a contractual basis. Stone and Webster; Bechtel Corporation, Fluor Corporation, Ltd.; C. F. Braun, and Morrison-Knudsen Co., Inc., are but a few examples of talent which could be used when the concern is not with financing the extension of knowledge, but to make ready application of things already known in fields foreign to normal pursuits.

### **Consultants**

A principal source of consulting talent is the university faculty. It is usually reached by personal contact, or by getting in touch with the dean or department head of the school. Another segment of professional consultants has been listed by the American Management Association, Inc., New York.

In general, consultants are needed to bolster the technical or managerial know-how of an operation when persons are not available for full-time employment or when an independent outside look is needed. A consultant is particularly useful, for example, in matters involving personnel, or for evaluating an idea.

In general, you must know what the problem is before hiring such persons, and you will not maintain them on a permanent basis unless they have a continuing liaison function by virtue of their other retainers. Consultants are generally available for short periods at rates usually between \$100 and \$250 a day, with separate fees negotiated for extended periods.


### **Selecting the facility**

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## RESEARCH TALENT

*continued*

understand what your problem really is. If you have research facilities of your own, you must also know what your capabilities are so as to determine whether the research help you need is toward the more basic end of the spectrum or perhaps even parallel to your own effort. It is also necessary to understand your own capabilities because they will determine the point at which outside research will stop and can be integrated into your own organization. Some questions you should explore are these:

*How much work has been done in this field?* You may decide to buy into an appropriate program or you may, for ethical and proprietary reasons, have to avoid these places. You are also well advised not to try to catch an effort that is two or three years ahead and better financed.

*Who is working for my competitors?* The research institutes and most of the consultants will decline work on the same subject from competing companies. The universities, government and cooperative laboratories must be impartial.

*Are we trying to extend the art, or merely to exploit existing know-how?* Pick the part of the spectrum most suited to your needs, remembering to consider a separate spectrum for each subject or technology needed for your effort.

*Will proprietary information be needed?* If so, you must hire an organization that is capable of maintaining your secrets and still has access to the necessary facts.

*Will proprietary information be generated?* If you want the information to remain with your company, then the research institutes, for-profit research organizations, and consultants are in a position to help. If you want the know-how disseminated, they may also be in the best position to do so.

*What about patents?* In government and cooperative laboratories as well as most universities, you

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don't get patents. From most of the research institutes and for-profit organizations, you do. None can guarantee they won't use someone else's patent structure in the research solution.

*Are we looking for a quick solution to a specific problem or a basic technique?* For the general theory behind a class of problems the research institutes are outstanding; for one-shot solutions the for-profit group may be more appropriate.

*Is the subject peculiar to our industry?* In this case an industry laboratory may be preferable. The work must be done by someone who understands both the problem and the industry.

*Will industry standards be generated?* If so, they must come from a source that will be respected. Universities may be considered too theoretical. Industry laboratories are the most likely, although research institutes and consultants have performed well.

*Will the project be large or small?* If less than \$5,000 is involved, you are talking about a short-range and usually a one-man effort. Most universities can handle grants from \$1,000 to \$100,000 without reorganizing. Research institutes are best suited to the \$10,000 to \$1 million range. The engineering consultants are the ones best geared to projects involving extensive architecture and field crews.

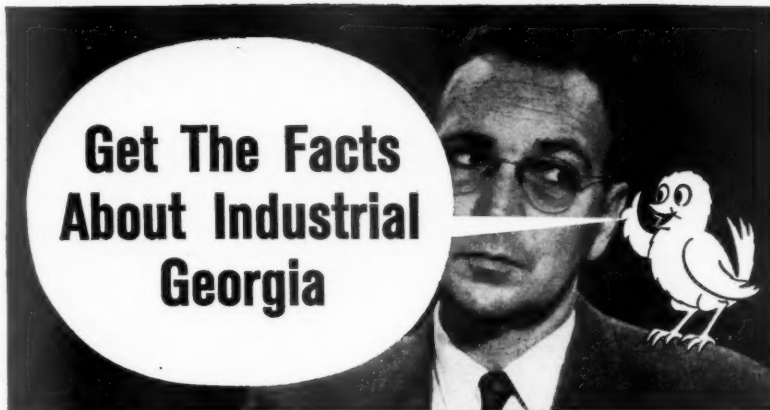
*Will it be a continuing effort?* Continuity may be a problem with universities, since people eventually graduate. Research institutes are the most frequent sources of three to five year efforts. Engineering firms and consultants are the most satisfactory sources of quick competence.

*Should we buy management along with research?* When you know what to do, the kind of people required, and when to get them off the project, you are capable of managing your own effort. In this case it is best to acquire individuals rather than to buy teams where the costs include a share for research management.

*Will it require special talent?* If there is some doubt as to how the problem might be solved, you should start with an organization that can compare the merits of perhaps a chemical versus an electrical or other solution. Once a program is committed, there is no substitute for specialists.

*What is the security level of the*

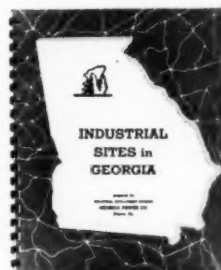
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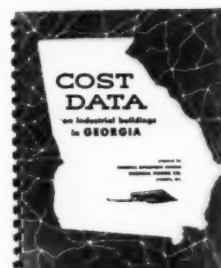
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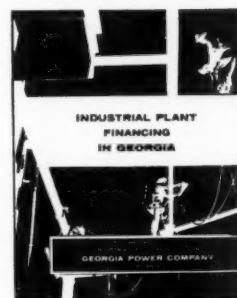
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## RESEARCH TALENT

*continued*

### Cooperation with researchers gets better results

*findings?* Will the results be known, but not that you have sponsored them? Do you want a reputation for good research? Will it have to be kept from others in the industry or even from your own employees? These are special cases that probably have no general answer, but which can bias your choice.

*What is the cut-off point?* At what point will you want this program to come back into the house? In what form? What are the criteria for deciding that the effort is no longer practical?

*What follow-up will be required?* Will it be by outside personnel or your own? Will it be sporadic or continuous? Will it attempt improvements or ramifications?

*Are you going to pay for the entire effort?* If you are putting a carrot on a stick and trying to get the government, or suppliers, or somebody, to put money into the effort, then it is best to find an organization that can accommodate a wide variety of sponsors after your own money runs out.

*Will your need for outside research continue?* Outside groups usually need some indoctrination. Sticking with one organization on a series of problems, you ultimately will have a valuable trained group, familiar with your organization. When the training problem is a small part of the effort, you can better afford to shop around.

### **Some don't's**

It would be appropriate to mention at least a few things one should not do in utilizing outside research facilities.

*Don't hold back information.* In general, the people in any of these organizations are intelligent and well trained, but they can't perform the job willingly and well if they don't have the whole story. They will need background information and a perspective of your problem. Most of the organizations are prepared and expect to maintain your



secrets as well as your own staff would. If you hold back, and it turns out that their recommendations can't be used because of some information you didn't discuss, you have wasted your own time and that of the outside organization.

*Don't shut out new viewpoints.* Open-mindedness is a requisite for people who seek competent outside research associations. Frequently these outsiders have a viewpoint indicating a different approach than the initiator might have imagined. He shouldn't be dissatisfied or upset if a consulting group suggests he is tackling the wrong problem or even starting at the wrong point. It is necessary, of course, for the research director to make the final judgments, but he would not be making the most effective use of the outside talent if he did not carefully consider some of these other viewpoints.

*Don't waste the researchers' time in conferences and writing reports.* You can save yourself considerable expense by delegating people from your own organization to conduct the liaison effort and work with the outside groups.

*Don't expect to buy preordained results.* Most research organizations are jealous of their role and will not lend their names to the underwriting of a process or scheme unless it really measures up. Many clients have been surprised and discomfited when competent research organizations played back something other than the expected results.

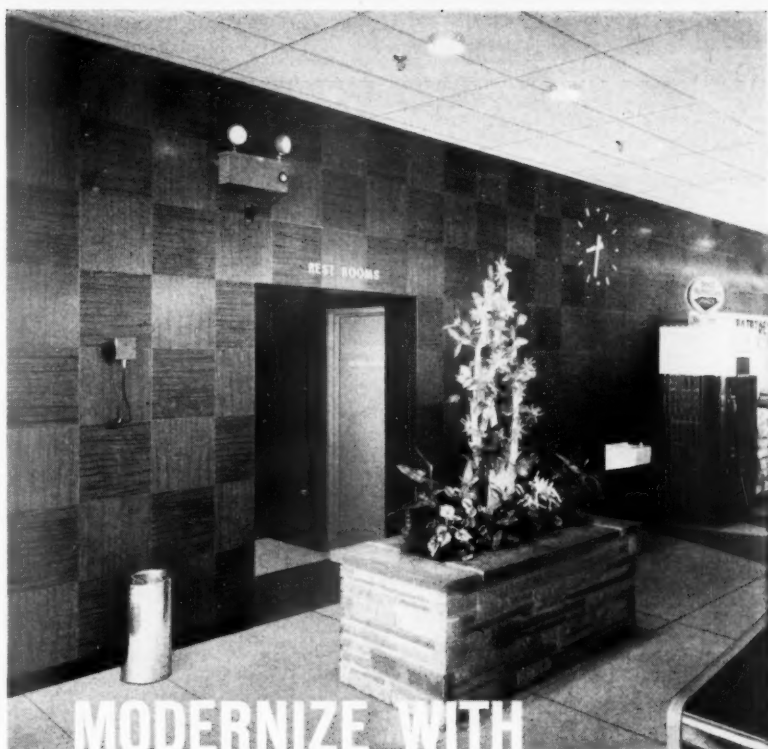
Frequently it is a year or two before client companies realize the correctness of the result.

*Don't conduct stop-and-go research.* Once started, the most effective policy is to run the project at a steady pace without having to reorient or replace personnel.

*Don't operate on the lowest-bidder principle.* Hope for, but don't expect bargains. Research on the wrong subject, by the wrong people, at the wrong time is terribly expensive. When in doubt, start at a low exploratory level and get a better look at both the problem and the staff.

—WILLIAM D. MCGUIGAN

**REPRINTS** of "Research Talent Everyone Can Use" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from *Nation's Business*, 1615 H Street N.W., Washington 6, D. C. Please enclose remittance with order.



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# Farm crisis hits YOU

## Changes in agricultural management bring clash of economics and politics

A NEW AND VIOLENT clash between economic and political forces is building up in the farm industry.

If the political forces prevail, the result will be more extensive government intervention in farming and the food business. Traditional patterns of farm management and existing ideas about the social and economic structure of agriculture will be altered. The effects will be felt on everybody's dinner table.

Cause of the new clash is vertical farm integration. This movement is not new. The relationships that vertical integration describes are well established in some farm commodities and a common feature of a modern industrial economy.

The economic forces of integration encourage production by the more efficient and effective producers making use of new techniques and arrangements. This increases their competitive advantage over other growers. It encourages increases in production, frustrating the government's expensive programs to control it. It also leads to lower farm and food prices. It puts pressure on the incomes of less advantageously situated producers.

Political forces work mostly to protect the status quo, to shield producers against such changes. The more rapid and compelling the change, the more extreme the political devices are apt to be.

To understand why integration now becomes a political storm center, it is necessary to examine how modern methods and technology are changing farm practices.

Traditionally the farmer has started with resources—principally land and water. To these he has added capital of one kind or another and labor—his own hired help—and produced a product for market. Most often, this product is a raw material subject to further processing before being consumed.

When farms were predominantly self-sufficient, the whole process from nature to consumption was an integrated whole.

The livestock farmer who once raised hogs or cattle produced the feed used, fattened the animal, slaughtered it, dressed and cured the meat and finally sold it to the consumer.

All the decisions and control were in the farmer's hands. Gradually other agencies arose to provide the farm producer with equipment, supplies and services, to transport, process and market his product.

With this growth of nonfarm specialization, areas of decision and control passed from the hands of the farmer to others.

Even so, the farmer was still free to make his own decisions as to what products he would produce, how he would produce them, what equipment and supplies he would use, where and when he would market his products.

Today increasing specialization and intensified technological development have made it necessary or desirable for farmers and the non-farm agencies to become involved together in farm production. These relationships result in the sharing

of controls and decisions. In some cases control has passed largely out of the farmer's hands. Along with it has gone a corresponding share of business risks.

These relationships are developing both in supplies used in farm production and in marketing farm products. In general, the closer the relationship with the supplying or marketing agency the greater the degree of integration. Such integration ranges from limited contracts on up to almost complete ownership and management by the outside or nonfarm agency.

Integration sometimes ties together only two steps in the farm-to-market process. For example, a canner contracts with farmers for tomatoes. Only the farmers' tomato production is thus integrated.

But suppose a large retail food chain wishes to assure itself a constant supply of top quality fresh eggs. It may own hatcheries, feed mills, egg-grading and packaging equipment. It may supply chickens, feeds, medicines and services to contracting farmers, supplying perhaps even a large part of the capital they use. It takes the eggs produced under contract from the farmers and distributes them through its own retail outlets. This would be a highly integrated operation.

What motivates integration? For the farmer it may be the need for more capital or credit to operate on an economical scale. It may be his desire to assure a market and reduce price risk and uncertainty, or to reduce costs of supplies and services.

Retailers with mass markets may be seeking increasing volume of supplies delivered on a regular and dependable basis.

Processors of farm products may be seeking adequate supplies delivered according to time or seasonal requirements and of standardized or specified quality. They may be seeking to build volume to reduce unit costs, to utilize expensive capital equipment, and to avoid seasonal shutdowns or lay-offs of workers.

Suppliers to farmers may desire to expand and assure market outlets and to achieve a steady, continuous flow of operations at minimum unit costs.

Perhaps the biggest push behind the integration movement is the highly competitive nature of the

## Vertical integration:

retail food business. In the struggle for profit, large volume and low unit costs are paramount. This pressures the distributors to line up quantity and quality on a steady and dependable basis.

Rapid technological change on the farm has greatly fostered the trend. New production methods can be put into use more rapidly contracting for them than by waiting for their more gradual adoption.

One of the most completely integrated farm commodities today is the broiler chicken. It is estimated that more than 90 per cent of current broiler production comes from integrated programs.

More than half the nation's turkey output is under integrated programs, most of them sponsored by feed companies.

Egg production is shifting substantially to integration and some industry people predict the business will be completely integrated in six to eight years.

In dairying, integration, though less marked, is increasing with producer associations acquiring processing and distribution facilities, and processor-distributor firms entering into milk production.

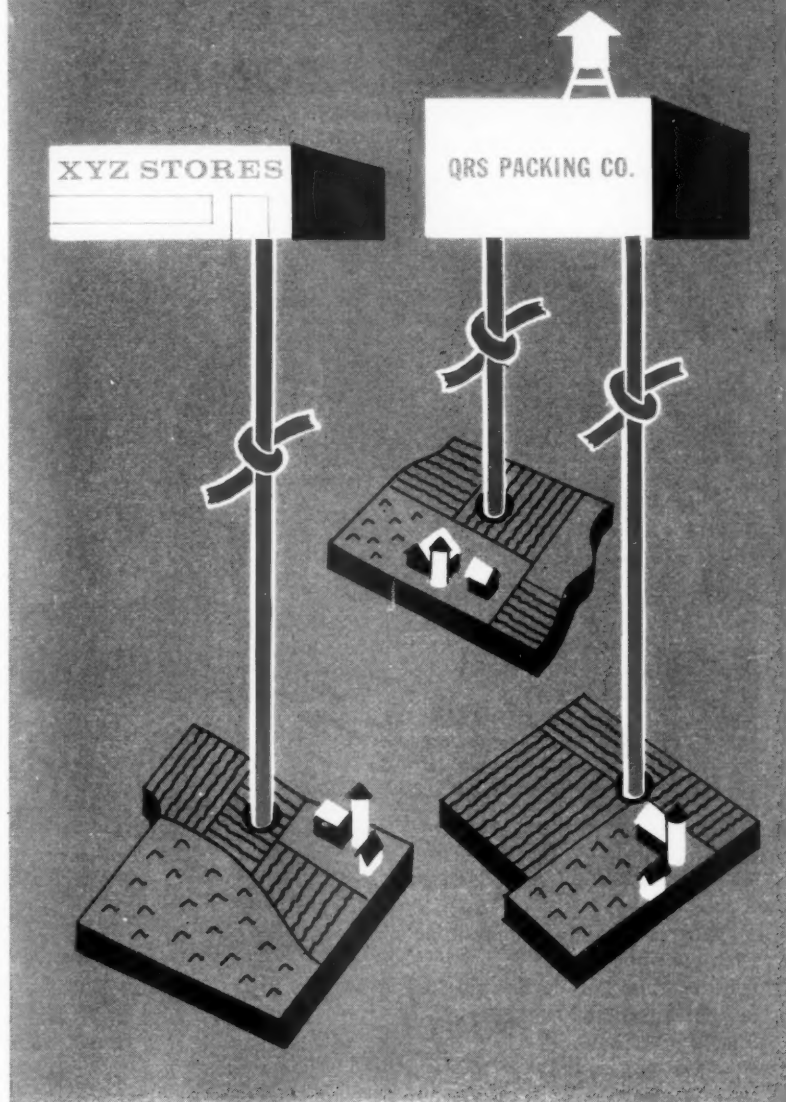
Although as yet only a minor part of meat production is integrated, interest and experimentation are developing rapidly. More than half of the major meat packers now have integration programs for hogs and more than a third have vertically integrated cattle programs. A substantial proportion of lamb slaughterers get their lambs under integrated arrangements.

About 90 per cent of canning and freezing vegetables are grown under contract with processors. Contracts in some cases simply require the processor to take delivery of the crop at a specified price. Others specify such details as planting dates, varieties planted, spraying practices, and prices by sizes, varieties and grades, as well as dates of payment.

Arrangements between growers and shippers account for more than one third of the country's potato production. Fertilizer dealers and credit institutions have a considerable effect, especially on varieties and marketing methods in many regions.

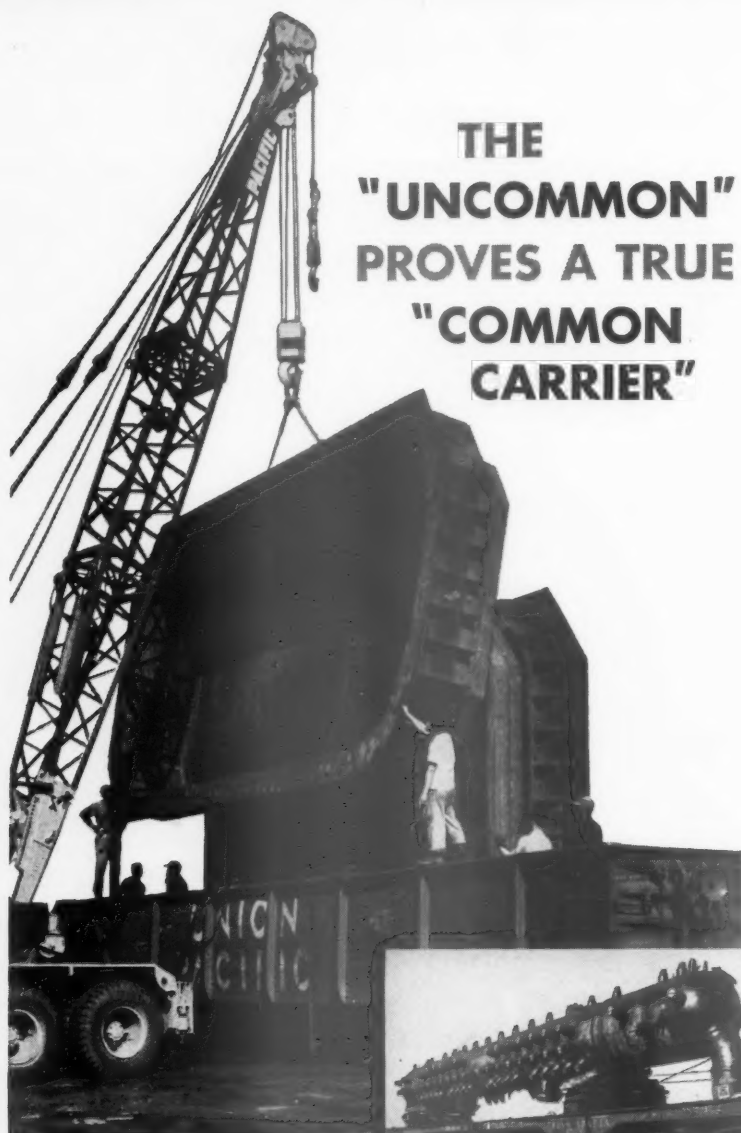
A large proportion of the citrus output is integrated through mar-

### Boom or doom for independent farmer?



Tying farms to processors or consumer outlets assures steady markets, adequate supplies and reduces risk for both. Political question is whether laws are needed to equalize competitive advantage, protect farmers' bargaining power



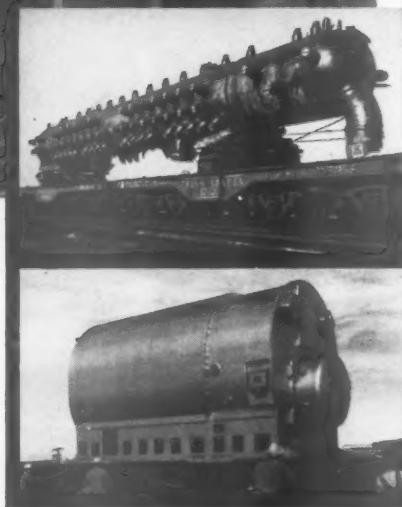


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## FARM CRISIS *continued*

keting cooperatives. Some of the contracts require complete management, covering fertilizing, irrigation, spraying, soil mulching and harvesting.

Both types of integration, from retail back into production, as well as from grower through to retail, are found in citrus production.

Integration is also growing in the production of deciduous fruit, tree nuts, sugar beet production and in the production of dry peas and dry beans.

Integration, as these examples show, has grown and is growing, largely in response to competitive and other economic pressures.

To some, it appears a salvation or way out for some farmers, a natural evolution to take advantage of a rapidly developing technology. Others, however, see in this a grave danger to the family farm. Between these two extremes is a wide difference of opinion as to the consequences of integration. One consequence, feared by some, might be a concentration of production, processing and distribution into the hands of a few large-scale business units.

Those who hold this view note that fewer than 30,000 integrated broiler producers now produce 90 per cent of the output. They estimate that 60,000 hog producers managing 100 sows each could produce all the pork the nation requires. Similar integrative developments in dairying would probably eliminate the need for 90 per cent of the current number of dairy farmers.

With present technology, about one fifth of the present wheat farmers could probably produce all of the wheat that normally can be marketed.

Others see a threat to the farmer's bargaining position. They fear that he will be completely at the mercy of powerful economic interests able to deal with him on an individual basis. This, it is said, would be aggravated once the farmer became tied to one integrator and no longer had market outlets open to him.

As integration takes over more of the risks and especially the management decisions, the profit opportunities for the farmer are reduced. He might become a piece worker with low income. Some see in this the complete destruction of the farmer as an independent business



manager. Integration tends to push producers to increase the size of their operations so that labor-saving and other equipment and resources can be more fully utilized, lowering cost per unit and increasing output per man. Initially this could lead to considerably more than markets can absorb, but ultimately some farmers would be forced out by competition.

Against these disturbing predictions, one economic solution has been suggested—that farmers head off some of the difficulties by becoming themselves the integrators.

There seems little doubt that the pressures leading to integration will continue to mount. Increasing capital requirements for modern farming will make integration attractive to many farmers as a source of additional capital. The increasing complexity of production will push some to seek the management assistance that is available from integration.

The increasing risks in modern farming will encourage some farmers to shift part of such risks to integrators.

Increasing market uncertainties for producers will make the assurance of market outlets through the integrator attractive. Similarly, the pressure on suppliers to find bigger and more stable markets for their products and services will continue.

There seems little reason to doubt that society as a whole will benefit by integration in agriculture, just as increased efficiency and more effective use of resources, labor and capital has benefited society in other lines where it has long been taken for granted.

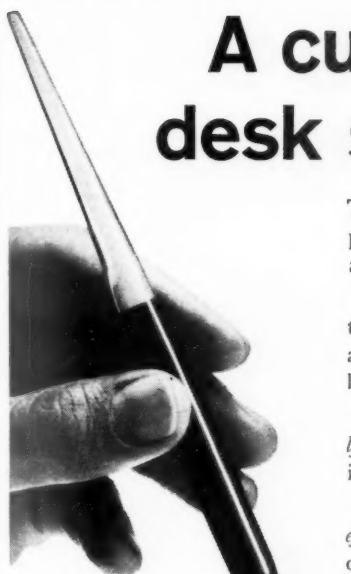
But it will bring problems to farmers and other businessmen. It will have to make its way over the hurdles of political measures intended to thwart it or slow it down.

As integration gives competitive advantage to some producers the political trend will be to try to shield other producers against its effects. Legislative devices are already at hand to serve this purpose. Measures that prescribe minimum acreage allotments or marketing quotas are of this type. So are the ceilings on the amount of money any one producer can receive under various government programs.

In spite of such political obstacles it seems certain that integration in agriculture will continue to transform the farm and food economy. Developments will be rapid in some commodities and perhaps more gradual in others.

But changes there will be. **END**

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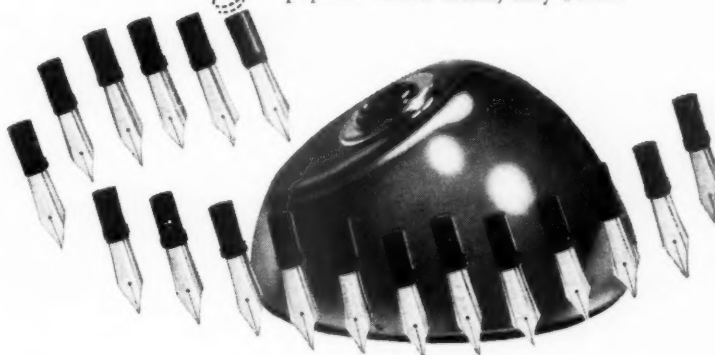


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# GOOD LEADERS DO THESE THINGS

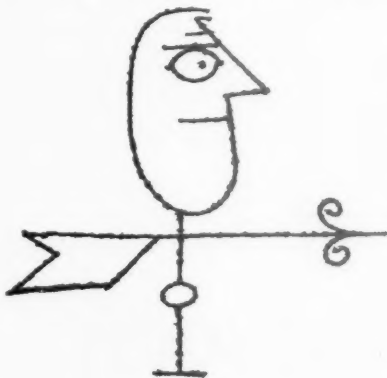
Certain qualities stand out in the man  
who can get a job done through others

THE BEST WAY to decide if a man is a good leader is to watch him lead.

While there is no one kind of good leadership, sociologists have found that there are certain things that good leaders do. Here is what to look for:

- ▶ A good leader initiates action.
- ▶ He gives orders that will be obeyed.
- ▶ He uses established channels within his group.
- ▶ He knows and obeys rules and customs of his group.
- ▶ He maintains discipline.
- ▶ He listens to subordinates.
- ▶ He responds to their needs.
- ▶ He helps them.

The ultimate test of leadership is, of course, effectiveness in getting the job done. However, it is often unfair to judge a supervisor or leader by group effectiveness alone, because any leader is limited by the abilities of the people he leads. It is likely that a crew of highly skilled people will perform rather well even if they are ineffectively led, whereas poor workers will perform poorly, no matter how good the leader. A good leader gets the most out of his people, but he can't perform miracles. You look at how the man leads, as well as at the productivity of his group.



Good leader points direction

Sociologists and psychologists have long sought, with little success, to establish rules for effective leadership. There are no rules that always work. There are objectives, however, that any leader of a working group must accomplish in his own way. Basically, he has two main tasks:

First, he must direct the group toward its goal.

Second, he must maintain the group as a group, keeping the members working together as a team.

Stated differently, the leader must be both goal-oriented and group-oriented. Neither orientation can be ignored. The leader who concentrates only upon the job and forgets that his group is made up of human beings will ultimately fail, for the workers will become dissatisfied and seek other employment. On the other hand, in a business organization, he cannot afford to forget that there is a job to be done. The good leader is constantly aware of the demands of the job and the demands of his people. He meets both sets of demands even when they conflict.

How does the good leader meet these demands?

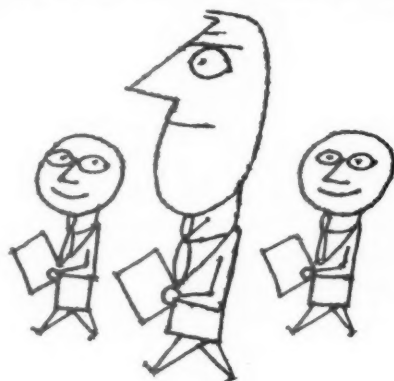
## He initiates action

When there is work to be done he states what it is and tells who is to accomplish it. When a decision must be made, he makes it. That is not to say that a good leader is an absolute autocrat. In fact, unless he is awfully good he had better not be, but he starts things going and points the direction, even if he leaves the details to others.

## He gives orders

Not all action is initiated by means of orders. Much will be done through suggestions and questions. But when occasions arise where orders are called for, the good leader gives orders in a way which makes clear who is to do what and when. Furthermore, good leadership requires that the actions ordered are within the abilities of the people who are to carry them out.

A research director recently told his scientists that he wanted some posters made to illustrate their work. None were made. The reason was that the order was improperly given. Who was to do the work? When was it to be done? The members of the group did not know, and anyhow, they were scientists, not artists, and none could do a good job at painting posters. Repeated incidents of this sort would have created a



Obeys rules himself

situation in which any unpleasant order by the research director would be ignored, and he would lose control of his workers.

#### He uses established channels

If secondary supervisors are by-passed, they will lose their authority in the eyes of the workers, and they may react by becoming leaders of dissident cliques, undermining management in an effort to regain their own lost status.

Good leadership requires not only that formal channels be used, but that informal ones be recognized, too. An example occurred in a Chicago firm where the men fell into two friendship groups based on age. The older men, having interests in common, formed one group, and the younger ones formed another. When a new young man came to work, the manager, after a brief period of orientation, turned him over to a worker who was well liked by the younger group. This worker introduced the new man to the others of his set, showed him the ropes, and saw that his office was supplied with necessities. As a result, the newcomer felt welcome and a part of the group. His guide was flattered to have his leadership among his set and his skill at his job recognized. The manager, by using established informal channels, had introduced a new employee with a minimum of upset and a maximum of effectiveness.

#### He obeys the rules

The leader who expects people to "do as he says, not as he does" will be disappointed. Recent research by scientists of the Human Resources Research Office of The George Washington University has indicated that an important factor in the effectiveness of an Army platoon leader is his ability to be a military model. They found that if an officer is untidy, inept at close-order drill, or in any way unmilitary, he will often fail to gain the respect of his men, regardless of his skill as a tactician or administrator.

The same holds true in business. Rules and cus-

toms shape the expectations of people, and if a leader fails to obey them, the workers will be jarred by his deviation and feel insecure and distrustful of him.

The importance of custom to a group was illustrated recently when a new manager took charge of an office where five women handled the clerical work for nine men. One of the women, Mrs. Evans, a file clerk, was in charge of the coffee pot. She bought expensive coffee and made several pots each day in an electric percolator. This activity required her to make many trips to another floor to wash the pot and the cups.

The new manager noted that Mrs. Evans was frequently behind in her work. He decreed that henceforth his office would follow the same coffee procedure as did the rest of the firm. This meant that instant coffee would be served twice a day in paper cups, and that the job of making and serving the coffee would rotate among the five women of the office.

The response was negative, violent and, in his opinion, completely out of proportion to the issue. Mrs. Evans quit; the other girls pointed out that they were not hired to be waitresses; and the men complained of the poor coffee. The new manager found himself regarded as a tyrant because he had failed to recognize the importance of the coffee customs of the group. For the men, Mrs. Evans' coffee had been a matter of special pride. Their office had had the best coffee in the firm. For the girls, the fact that they had been served their coffee just as the men were, gave them a feeling of importance. For Mrs. Evans, the compliments she received for her coffee had given meaning to what was otherwise a dull job. The new manager had failed as a leader.

This does not mean that a good leader lets an uneconomical practice continue just because it is customary. However, it does mean that he takes the importance of custom into account. The new manager might have saved the day by acting less abruptly and arbitrarily. Perhaps he could have gotten the group to limit the number of pots per day and to



Doesn't by-pass supervisors

## GOOD LEADERS DO THESE THINGS *continued*

agree to help wash the equipment on their own time rather than on the company's time.

### **He maintains discipline**

The good leader creates situations in which the workers discipline themselves. He uses the fact that for most people few things are more important than being approved and accepted by their fellows. When a member of a group deviates from the group norms, the rest of the members disapprove and withhold their acceptance. The deviating member reduces his deviation. Therefore, the best way to maintain discipline is to make the needs of the job become a part of the norms of the group.

There are a number of ways to accomplish this. A method frequently used in business is to get the



group to define its own goals through democratic action. This involves frequent formal meetings at which job-related problems are presented to the members for solution. This is time-consuming, but effective. Another way is to change the formal structure of the group so that the norms will automatically reinforce the demands of the job.

Here is an example. Recently, discipline broke down in several departments of a large Detroit store. The saleswomen resented and sometimes refused to do such work as dusting displays, arranging merchandise on racks, and other tasks which did not lead directly to commissions. During slack periods, competition among the sales people was so intense that two or three clerks would openly fight over a well dressed customer while a more poorly dressed one would wait in vain for service. The result was a loss of both sales. If one clerk had to leave the floor for some reason before a sale was completed, other clerks would refuse to complete the deal, because doing so might prevent a sale of their own.

Threats of punishment modified this behavior only when the supervisor was present. Since she frequently left the floor, the situation remained bad.

The management took drastic action. They induced the sales persons in two of the worst departments to pool their commissions as a part of a six-month experiment. Behavior changed almost immediately. Since every sale benefited all, fights over who took care of which customer disappeared. Since attractive displays helped sales, resentment about time taken for merchandising chores declined. Sales and receipts rose.

At the beginning of the experiment, management had feared that removing individual incentive might lead to laziness among the sales people. Precisely the opposite occurred. The women worked harder than ever. Each saleswoman felt that if she didn't come through, she'd be hurting not only herself, but all the others. Furthermore, through ridicule and the threat of ostracism the group made sure that none of the members forgot that each was dependent on the other. Those who worked hard were rewarded with prestige and friendship.

While commission-pooling does not always work so well, in this case, at the end of the six months, the system was adopted throughout the store.

### **He listens**

Listening is important for three reasons:

First, no one knows the problems of a job as well as the man who is doing it.

Second, only by listening can the supervisor spot forthcoming trouble before it develops.

Third, group members want to feel that their leaders take an interest in them and in their viewpoints.

A Washington, D. C., restaurant owner was showing good leadership on all three counts when he consulted his dish-washers before he bought a new, cheaper brand of soap.

Listening enables a leader to respond to the needs of the workers. Such responses are essential to good leadership, because everyone is, at times, troubled. Everyone wants recognition. Sympathy, quiet praise, interest without intrusion—in short, all the things which make people like each other—pay dividends. The good leader is liked because he really is sympathetic and interested. This cannot be a matter of pretense, because people quickly see through a phony.

Responding to the needs of the members means lending a helping hand when it is needed both on and off the job. When help is needed and received, it is appreciated, and workers will respond to the helpful leader by helping him. It is important, however, that the help that the leader gives is the help that the members want, not just what the leader thinks is best for them. The supervisor who thinks for his workers is dominating them and they will resent it. On the other hand, the supervisor who thinks of the workers is leading them, and they will love it.

In sum, when you look for good leadership, look for a man who gets the most out of his workers, and who gets them to like it.—NORMAN F. WASHBURN

**REPRINTS** of "Good Leaders Do These Things" may be obtained for 10 cents a copy or \$6.75 per 100 postpaid from Nation's Business, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance.





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## Executive Trends

### Three biggest problems of the 1960's

The major challenges to America's economy in the period 1960-1970 will be these: big government, inflation and the pains of growth.

This is the view of J. Cameron Thomson, board chairman of Northwest Bancorporation, Minneapolis, Minn. His views will be shared by many executives currently making plans for the future.

The 1960's, Mr. Thomson says, will challenge us to achieve a national consensus about the size and role of government consistent with a free competitive economy; to devise methods of controlling inflation, as well as to moderate recessions, and to increase our growth to a rate substantially higher than three per cent a year.

► *Mr. Thomson calls for reforms in the federal tax system to encourage savings and investment incentives. He is critical of increasing federal expenditures of a subsidy nature which, he says, "have been permitted to grow out of all proportion to their benefits to the nation." To avoid this, he says, we need not only reforms in the federal tax system, but a re-examination of the tax systems of the states.*

### The women in your future

Most experts on the future worker needs of the nation agree that industry will find itself relying more and more on female employees as the growth period of the 1960's unfolds.

There are already more than 21 million women at work, and by 1965 this figure will exceed 26 million, according to government estimates. Approximately one million of the women now employed are managers, owners or proprietors of businesses.

Some insights into the attitudes of working women are provided by a new nationwide study conducted by the University of Michigan. It shows that women in managerial positions rate job advancement and recognition of their good judgment as high work satisfactions; about six in 10 clerical and sales workers said they liked their jobs because they helped them feel important.

► *In semiskilled jobs, on the other hand, the feelings of importance are less significant. Most women in this category mention that the simple fact of contributing to their family's support is all the satisfaction they seek or need. And here's a kicker: Half the married women interviewed said housework helped their self-esteem.*

### Share in decisions can boomerang

One of the most venerable beliefs in the field of supervisory practice has been challenged by results of continuing study at the

University of Michigan's Institute for Social Research. Rensis Likert, director of the Institute, says it's widely believed that effective supervision is increased by giving employees a chance to take part in decisions which affect their jobs. While most employees do welcome this opportunity, U-M researchers have found that there is a minority that regards participation in decision-making as a threat. Members of the minority fear punishment if they are party to a wrong decision.

Conclusion: Some workers prefer to be told what to do.

► Mr. Likert says that basic principles of supervision will be effective only when they are applied with great flexibility. Specific rules, the researchers have found, will usually yield mixed results. A leader must adapt his behavior to fit the expectations, values and interpersonal skills of those with whom he is interacting.

### New data on marketing research

A research study by the American Management Association shows that U. S. firms are making increasing use of formally organized marketing departments.

The survey covered 195 companies in various parts of the country that carry on some sort of marketing research. Forty per cent of these firms had 1956 sales volume of more than \$100 million; 27 per cent had sales of \$25 million or less.

Findings show that more than three fifths of the companies studied have at least one full-time marketing research employee. Slightly more than a fourth assign the responsibility on a part-time basis, more often to a line executive than to a staff executive. Most of the others either assign it to an outside agency or divide it.

► Significant, too, is the increase in the number of small companies with full-time personnel engaged in marketing research. The employment of full-time marketing research specialists was reported with more frequency by manufacturers of industrial products than by makers of consumer goods, but consumer-goods manufacturers tend to spend more on marketing research than do industrial-goods makers.

### Unions—how big a headache?

Some measure of industry concern over future relations with organized labor is contained in findings of the second annual survey of industrial relations executives conducted by *Industrial Relations News*.

More than 54 per cent of the executives responding to the survey expect their biggest problems in the next few years to involve management development. Only slightly more than 21 per cent said that they expect union relations to be their biggest concern.

The survey shows that industrial relations executives in smaller companies (1,000 to 2,999 employees) are more concerned about union relations than their counterparts in large firms.

► Union problems seem to be more pressing among firms in the East South Central states, in the Pacific states and in the New England states than in other areas. The respondents were divided over the adequacy of the training and background of the current crop of graduates seeking entry to the field. Although 30.6 per cent felt that young graduates had an adequate background, 21.6 per cent said they were too specialized, and 40.6 per cent said their training had been too general.

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## Bolstering the self-confidence of the customer is helpful point in selling

that it may or may not be a fact that the man under discussion never smiles but that it can only be an opinion that he's an old grouch.

In spite of all you can do to make this point some trainees probably will persist in mistaking their opinions of customers for facts. The head of a one-city chain of retail clothing stores has a method of trying to deal with this.

He visits each of his stores once a month for what he describes to his employes as sessions of gossip about their customers.

Employes who present new facts about regular customers which are potentially pertinent to the sales approach earn credits toward an annual bonus. The submission as fact of a single opinion cancels the value of two genuine facts.

The purpose of this discussion is to lead the trainee to look on the customer as a kind of storeroom with all his past experiences packed away inside. These experiences account for his behavior, his viewpoint and his feelings. They make him what he is.

Once a trainee grasps this he can see the irrelevance of his own opinion of the customer. His purpose is not to change the customer's personality. All he can hope to do is understand it.

### Create customer confidence

Although no two humans are alike in every way, most of us do have the same basic needs. From the salesman's point of view the important differences are in the ways we go about trying to satisfy those needs. One customer may seem brusque and self-assertive, another affable and expansive, yet both may be seeking the same things: to bolster their confidence in themselves by compelling or winning the salesman's approval. When the salesman realizes that the customer wants his approval, giving it can be not only good business but also a personal pleasure.

The sales manager of a machine tool firm tells a pertinent story from his own early days on the road. In an attempt to crack a potentially big customer company noted for its sales resistance and to which his firm never had sold, he got to know

one of the company's engineers. Eventually, he was able to show this man that one of his own firm's specialties could mean a big savings. The engineer had the power to requisition the item, but the formal order had to come through the purchasing agent.

"The engineer had warned me," the sales manager says, "that the purchasing agent was a stickler, but I was riding high. The sale was going to be quite a feather in my cap. When the agent started asking questions that seemed to me out of his province and were answered in the requisition, I did a slow boil.

"Fortunately, I caught myself before I boiled over. The expression on his face suddenly reminded me of the way my older boy looked when his kid brother brought home a better report card than his. I realized the man's pride was hurt.

"My first reaction was to feel that he was being childish. My second was to see that he was being quite human and to remember that I had felt the same way myself on occasion. I went to work to make him see that the requisition was not a reflection on him. As a result I not only got more orders over the years. I also made a friend."

In selling consumer goods the value of bolstering the customer's self-confidence is perhaps even greater. What happens when a snooty sales clerk looks down his nose at customers is obvious and notorious.

Not so obvious to trainees is the positive side.

One way to bring this out is to show trainees how many of the items consumers buy are chosen not merely for their utility but also for the recognition they gain the buyer in the eyes of others. Nearly all clothing, furniture, automobiles and a long list of other consumer goods are designed and bought to give the buyer prestige. A customer who is buying for this purpose, even if he is not fully conscious of it, naturally wants recognition from the salesman, too. Indeed, if he doesn't get it from the salesman, he is likely to feel that the item is a failure.

Recognition, however, does not call for extravagant compliments. What it does mean is letting the customer know that you value his

business, that you approve of his taste and that you think others will do the same.

One way to get this across to trainees is through practice sessions in which you demonstrate first several wrong approaches, exaggerating them for effect, then conclude with the correct approach.

### Communicating with customers

It often is difficult to make sure that someone is getting the message. Nearly everyone has had the experience of feeling that he is not making himself clear.

Only the listener can relieve this feeling. To do so he must demonstrate that he understands.

In the customer-salesman relationship it is up to the salesman to do most of the understanding and to prove it to the customer. If he succeeds in this, he probably will get a dividend from the customer in the form of increased attentiveness.

In working with sales trainees, the best way to inculcate good communication habits is to insist that they restate in their own words what they hear. Merely urging them to be good listeners is useless in most cases. To many of them this is likely to mean nodding and saying "yes" occasionally during a conversation.

Adult education authorities have devised a simple method of demonstrating the value of restatement. Several trainees are assembled, and one of them is asked to read a few sentences typical of what a customer might say in describing what he wants and expressing his opinions about the product. When the reading is finished, the others are asked to write brief résumés of what they have just heard.

The teacher then reads aloud what they have written. Almost invariably the résumés differ noticeably.

A West Coast sportswear manufacturer has a technique to help in establishing this.

To familiarize newly hired salesmen with his company he personally conducts them through every department of the plant and office. At each stop he says what he has to say in short takes. Then instead of asking for questions he asks the new man to repeat it in his own words.

"Some of them are a little resentful at first and think I'm giving them kid stuff," the company head has said, "but the good ones get over that fast. They learn how easy it is to misunderstand and how simple to clear up the misunderstanding on the spot."

A customer's appearance and at-

titude can give a good salesman some clues, but what he says is far more useful. By restatement the salesman not only assures his own understanding but also helps the customer to arrange his thoughts more intelligibly.

#### Following procedures

Some company heads and sales managers like to give new salesmen detailed instructions on everything from greeting the customer to saying good-by in a way that will encourage repeat business. Such instructions can be quite helpful to neophytes. Newcomers to retail selling in particular may need reminding of the value even of such obvious practices as remembering regular customers' names and previous purchases.

Through their training, trainees should get to know the merchandise in detail. Then they should be taught never to burden a customer with more of this information than he wants. Management can make this easy by picking out the point or points concerning each item of merchandise which the salesman should mention spontaneously and by instructing that further information should be supplied only in answer to questions.

The answers should be specific and candid. Evasiveness nearly always is obvious and suspicious. If the answer requires the admission of a disadvantage, let the admission be frank and be accompanied by discussion of compensating virtues.

Teach salesmen to quote prices promptly, accurately and without hedging when they are asked.

Some newcomers to selling have a misplaced hesitance about mentioning money. To some customers this can be intensely annoying.

It also can be helpful to trainees to outline for them formulas for closing a sale, for pointing out additional merchandise and for leaving the customer smiling. But formulas and excessively detailed instructions can be dangerous. A beginner following them mechanically is likely to sound unconvincing. Also, they give him an opportunity to avoid thinking for himself.

The manager of a men's shoe store in New York tells a story on himself:

"We were shorthanded and having a difficult time getting salesmen. This boy barely out of high school came in. He seemed bright and presentable, so I hired him. His one trouble was shyness. To ease him over it I taught him a talk and helped him memorize it. Nothing

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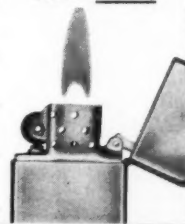
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## BETTER SELLING

*continued*

fancy, just 'good morning, sir. What can I show you?' and that sort of thing.

"Well, not one of our customers in a hundred is a woman, but he drew one for his first. I hung around nearby to see how he did. He didn't change a word, not even the 'sir'.

"The woman was mannishly dressed. Apparently, she decided that the boy was insulting her. About the third 'sir,' she got up, threw the box of shoes at him and

walked out." This obviously was an extreme case but it typifies what can happen. As in most teaching, the objective in training salesmen should be to give them the necessary tools, not all the answers. Once solidly grounded in fundamentals they will be able to find the other answers they need.

—ROBERT FROMAN

*Reprints of "How to Teach Better Selling" may be obtained for 15 cents a copy or \$10.15 per 100 post-paid from Nation's Business, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance.*

## PROFITS *continued from page 33*

equipment and other capital outlays during this period came to more than \$310 billion. If no dividends had been paid and all capital funds from all accounts reinvested, the amount available from total profits would still have fallen short of the amount used during these years. Because dividends were paid, investors were willing to put new money into the firms. For every dollar paid in dividends during these years, more than \$2 was invested in plant alone. Dividends were the bait which attracted this capital.

If the worker in a heavy industry who uses the equivalent of \$20,000 worth of equipment gets an average wage of \$6,000 a year, the annual outlay of capital necessary to enable the firm to employ him and to expand enough to take its share of the growth in the labor force may be about \$5,000 a year. If \$10,000 of the \$20,000 in equipment has been obtained by borrowing, the profit *per se* might not have to be more than \$1,500. But the return on the total capital invested would have to be much more than this. The money necessary to handle depreciation might come to about \$2,000 a year. Interest and other charges on the \$10,000 borrowed might approximate \$1,000 a year. This plus maintenance would total \$3,500 which, added to the \$1,500 profit, would yield a total of \$5,000 for profit and capital costs.

The \$20,000 in equipment which this \$5,000 per year supports enables the factory to pay the worker using it \$6,000 per year. Working with hand tools, he might not earn \$2,000.

The money going into the depreciation account to buy new machinery means employment of workers to produce this machinery.

The interest paid on the debt goes to insurance companies and other trust funds, or to other owners of bonds and mortgages.

So the \$3,500 paid for capital charges is not a waste. It goes back to support firms employing skilled labor, to meet social security payments and as a reward to savers for their help in enabling the company to expand.

### Why prices fluctuate

Profits dropped 11 per cent from 1953 to 1954 while total labor income dropped less than one per cent. Labor income rose five per cent from 1956 to 1957, but corporate profits fell again. Profits are erratic over short periods. Labor will not accept such an uncertain return. It insists on security through public and private insurance devices. The only insurance for the investor is an occasional opportunity for an above-average return to offset the times when returns are inadequate.

Profits must average out at a satisfactory rate after taxes, or new investment would not be forthcoming. Over long periods they have done so. When corporate taxes were raised to their present levels, industry had the choice of not expanding because not enough money was left after taxes to support expansion, or of raising prices. Had there been no problem of new capacity, prices would not have had to be raised but, to attract new money, it was necessary to offer an attractive yield after taxes.

Because ours is an expanding economy and because firms want to grow at least as fast as their industry grows, prices were raised and the yield on total assets after taxes returned again to eight per cent or more. This means that corporate in-

come taxes have now become, in effect, an excise tax. They are an indirect tax on the consumer. An indirect tax can be dangerous, after a period. The consumer may not realize that he is paying it and accept the argument that the indirect tax should be raised because he thinks the manufacturer will pay it.

Corporate profits have become, therefore, one of the main but somewhat hidden supports of the federal government. Anything which affects these profits affects federal revenue. For instance, federal corporate income tax receipts dropped from more than \$22 billion in 1956 to an estimated \$17 billion in fiscal 1959.

While profits after taxes have tended to oscillate around a fixed level, profits per unit of sale have declined. These profits must vary, of course, with the type of industry. A company with a heavy capital investment per unit of goods sold must have a higher profit than one with a low capital investment. A steel plant may need a profit per unit of sale of five per cent or more if it is to expand successfully. An efficient supermarket may be able to operate with a net profit of less than two per cent. A satisfactory profit per dollar of equity enables companies to improve their operation and cut their profit per volume of business done. The test of the efficiency of an operation may lie in the trend in profit per unit of sale as well as in the ability to earn a profit which enables it to continue to attract new capital.

Another way of looking at the increased efficiency of business operations per dollar of profits is to relate profits to the total volume of goods and services produced. This can be misleading, as a large and changing proportion of services, particularly, is handled by unincorporated business, but it is nevertheless a useful check on the efficiency of corporate productivity. During the 1920's profits after taxes came to eight or nine per cent of the total gross national product. During the past nine years—1950 to 1958—they represented about 4.6 per cent.

Or profits may be related to wage and salary payments. In 1929 profits after taxes were 16.2 per cent of the amount of compensation paid employees. During the past nine years, they came to 8.1 per cent.

In 1929, \$6.15 was paid in wages and salaries for every dollar of profits after taxes. In 1950 to 1958, \$12.28 was paid in wages and salaries for every dollar of profits after taxes. In 1929, \$11.35 was



paid in employee compensation for each dollar paid in dividends. In 1950 to 1958, \$20.51 was paid employees for each dollar in dividends. If industry had been able to finance its expansion without paying dividends, and had used its dividend funds to increase wages, the wage bill could have been increased by 8.8 per cent in 1929 and by 4.9 per cent in the years 1950 to 1958.

#### **Weaknesses of system**

Some, who recognize that profits perform a function in attracting new capital, still feel that profits are basically incompatible with the ethical standards of all modern religions. This view is worth examining because of its important ethical implications.

The profit system is one which lets the consumer make the decision. The businessman surveys his market and takes his chances. If he has judged correctly, the consumer will buy his product at a price which is profitable.

The moralist may feel, however, that satisfying the consumer should not be the test. He may believe, for instance, that the firm producing school books should have a higher profit than the firm producing hula hoops. That way lies dictatorship.

Any individual or group which can say who should make profits and who should not must tell the public that they are not permitted to buy what they want.

If the public wants hula hoops over an extended period, manufacturers will come into the business and the profits will drop. If the public does not want hula hoops for long, the manufacturers who came in at the beginning will find their business and their profits slipping. The flexibility of the profit system permits firms to enter fields at their own risk and, if they please the public, to make a high profit for a short period only.

The profit system does have technical faults. One is that it cannot always increase capacity efficiently and cheaply in an area in which large capital investment is required. If demand for an entirely new type of equipment develops in a hurry, and only small capital is available, the owners of that capital might receive a profit far out of line with the amount necessary to encourage them to expand. Profits may rise sharply, encouraging a large amount of new capacity to be formed. But once new capacity has been added, capacity may exceed requirements and profits drop below the level necessary for a normal growth. Such

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## PROFITS

*continued*

instances are becoming more infrequent. As the economy becomes more diverse, any one industry becomes less and less important in the whole. Fluctuations become smaller, and their impact relatively negligible. As management becomes more sophisticated, it tends to hold prices and profits down to discourage excess competition.

The profit system is less than perfect, too, in that the profits of small companies fluctuate more than those of larger ones. When demand rises fast, small companies can rush in more rapidly and take advantage of price opportunities. When demand falls the smaller firm may lose a higher percentage of business.

Despite such imperfections, the profit system is essentially the voting booth for the customer. He decides which goods he wants and where he wants to get them. This system permits democracy in the market place. It is the antithesis of

the controlled economy in which officials decide how many shoes, automobiles or bottles of milk the consumer may buy and what he must pay for them.

The system can be abused but abuses are obvious in a democracy. If firms conspire to maintain prices, or offer shoddy goods, this can be observed. We have antitrust and other regulatory legislation to provide rules for fair play, and to check the abuses while permitting the system to function. A dictatorship can foist unsatisfactory goods on its populace, too.

The standards of ethics of American business are rising. Under our profit system the American consumers are able to buy more with the earnings for an hour's work than can the consumers in any other country and are able to purchase more of what they want than they could under any other social system. They are able to do so in large part because, by voting their dollars, consumers channel profits to the firms and industries which satisfy their wants.

—ROBINSON NEWCOMB

## NEW INFLATION WEAPON *continued from page 39*

on price increases for a period after the conclusion of any new wage contract. This would insure that wages . . . are bargained for out of proceeds and not automatically passed on to the public." This involves a form of involuntary price restraint.

Prof. Sumner Slichter has suggested that the following penalty be set up to deter excessive wage increases:

"It is ridiculous for a government that is sincerely interested in preventing inflation to give employers powerful encouragement to grant wage increases. But the income tax of 52 per cent on corporate profits means that 52 per cent of any wage increase granted by a profit-making company is paid by the government. The subsidy might be reduced moderately by requiring employers to wait a year before counting wage increases as part of the costs which are deductible in computing federal income tax liability."

2. Sen. Joseph C. O'Mahoney, Democrat of Wyoming, has introduced a bill to require advance notice and public discussion where major changes in wages and prices are in prospect. Nat Weinberg of the United Automobile Workers has proposed that this policy should apply to situations where one cor-

poration accounts for 20 to 25 per cent of an industry's total sales. This approach relies upon indirect political pressure to hold down prices and wages. Professor Slichter criticizes it as follows:

"The proposal assumes that rising prices are caused, in the main, by a few of the so-called administered price industries. Many of the most powerful unions (the building trades, the printing trades, the teamsters, the machinists, the miners, the musicians) operate in industries where small or medium size employers predominate. . . ."

3. Limit annual increases in wages and fringe benefits to about 2.5 per cent a year, except in unusual circumstances. This proposal requires a restraint, apparently involuntary, to keep labor cost increases in line with long-term productivity gains. If prices rise for other reasons—for example, a general inflation—it is not clear whether increases exceeding 2.5 per cent in money wages would be permitted. Nor is it clear how such a proposal would be implemented for individual companies.

4. Impose comprehensive government wage and price controls. These proposals turn the responsibility over to government.

5. Call a labor-management con-

ference to work out an informal agreement to hold the price and wage line for a year with the possibility of a renewal for a second year. This proposal involves voluntary restraints over any wage or price increases.

6. Walter Reuther proposed to the automobile companies that they cut their prices by an average of \$100 in return for a commitment by the UAW to "avoid making wage recommendations that would necessitate price increases." This proposal was designed to reduce prices in return for a vague promise to keep wage demands moderate. It is a serious question whether the two parties could ever agree on what constituted wage increases that could be absorbed without eroding profits to the point where there would be considerable pressure for higher prices.

7. Industry should resist excessive increases in labor costs. In some instances, this might mean taking strikes. In others, such as the automobile industry, it would mean industry-wide bargaining. This proposal is designed to equalize the bargaining power of the parties and to increase the cost of obtaining excessive wage increases. Dr. Neil H. Jacoby, dean, Graduate School of Business, UCLA, points out that:

"When businessmen expect government to pursue inflationary policies, they are confident of their ability to pass on higher costs in higher prices without loss of sales volume. They tend to become soft bargainers and to make inflationary wage agreements. But if businessmen believe that federal fiscal and monetary authorities are determined to maintain a stable price level, they become tougher bargainers and wage agreements are less likely to have inflationary effects upon prices."

Clarence B. Randall, former chairman of the board of Inland Steel Corp., has indicated another facet of this problem in his observation that "... the American people are altogether impatient of strikes; the problem is as simple as that. Management could resist wage increases not based upon equivalent increases in productivity if the people would back them up."

8. Neil Carrothers, economist, has proposed that strikes be prohibited to help halt inflation.

9. Break up labor monopoly. Make unions subject to the antitrust laws. Prof. Edward H. Chamberlin of Harvard University says:

"There seems to be no reason to doubt that the upward pressures

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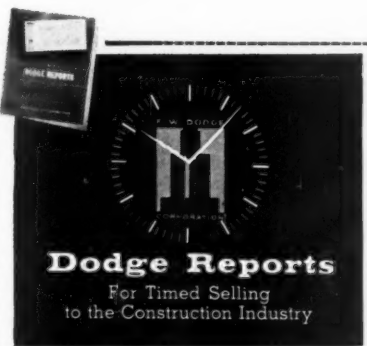
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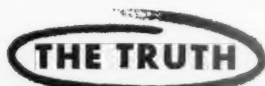
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## NEW INFLATION WEAPON *continued*

### Unions are taking advantage of policy in employment act

exerted by unions and transmitted to prices through the law of costs may well proceed (as they have been recently) at a rate greater than the rate of increases in productivity for the economy as a whole, with a resulting general rise in prices. The existence of such pressure is familiar enough, and the result requires no explanation beyond that of the national use by unions of economic power which they clearly have."

It makes little sense to criticize labor leaders for doing their job. What is required is a change in the environment in which they operate and a public realization of the tremendous monopoly position and strength of many key unions. The Committee for Economic Development suggests:

"... The main problem is in the field of labor, where there is no law and not even a public philosophy or policy for the limitation of economic power. There is urgent need for objective consideration of the proper extent, character and uses of union power in our society. Existing laws should be reviewed to see whether they give or leave a degree of power to labor organizations that is not in the public interest."

The first six proposals involve various forms of voluntary or governmental actions to limit rises in wages and/or prices. The seventh is intended as an interim measure to strengthen the power of management in key bargaining areas. The eighth and ninth proposals are designed to limit union power to impose settlements involving excessive labor cost increases.

Voluntary or imposed restrictions on increases in prices and wages hold out little promise of stopping a wage-price spiral. Whether effective government control over wages could be imposed in peacetime is doubtful.

Controls created great problems even during war when we had the stimulus of patriotism and auxiliary controls to help make them work. The peacetime record of price control is one of almost complete failure.

Prices and wages play valuable roles in steering resources. They have both stimulating and ration-

ing functions. When wages or prices are fixed, these roles are largely destroyed and production tends to be distorted.

Producers inevitably concentrate on those items on which they make the most profit. If prices are fixed too low—and if they weren't going to be fixed too low, why fix them—they usually lead to an ever-widening area of control.

Widespread evasion seems certain. Moreover, disrespect for law and order would become more significant as evasion becomes socially acceptable. Even in wartime, evasion of controls had a great deal of acceptance. Wage and price controls provide no satisfactory solution.

Resistance by industry to wage rises can help in some key bargaining areas because of the patterns which they set. However, this does not appear to provide a long-term solution. The basic requirement is to reduce the power of labor monopolies and to restore some balance in the power of the parties.

Fundamentally, price inflations are caused by excessive increases in money supply and governmental budgetary deficits. Money and credit must be adequate to support wage inflation or the result will be unemployment to a lesser or larger degree. The proposals outlined here do not deal directly with this basic force. Monetary policy and fiscal policy are the appropriate instruments with which to counter an inflationary price spiral.

### The Employment Act

The problem of wage inflation has been created by the combination of a national objective of maintaining full employment and the existence of powerful unions. The full-employment policy makes it difficult to impose those monetary and fiscal checks to rising prices which would create deflation and unemployment and thus counteract the actions of the unions.

The national concern over unemployment has assured the union leaders that, however unwise their wage policies, they would be underwritten by new inflationary measures when necessary.

Full-employment policies also have increased the bargaining



strength of the unions and union leaders are taking full advantage of the situation. If union power can be curbed, they will find it more difficult to take full advantage of a full-employment policy. This is why proposal 9 above must be given careful consideration.

When the alternatives are inflationary price rises or unemployment, we appear to have regarded inflation as the lesser evil. The experience of the 1930's has left a heritage of fear of unemployment. Neither alternative is desirable. But it is a major mistake to ignore the serious consequences of inflation.

When monetary policy is used to counteract wage inflation, the dilemma is highlighted. The question is, how much unemployment is required to curb the unions from forcing labor costs above the gains in productivity? It is feared that credit control to be effective in curbing such price rises would have to be so tight that it would result in large-scale unemployment. We have had the cart before the horse in this area. Wage policy must be adjusted to monetary policy and not the reverse, if wage inflation is to be curbed.

Amendment of the Employment Act would lead in this direction.

Among its advantages are:

1. It would reduce the expectation that further price rises are inevitable and thus curtail those activities of consumers, business, and labor which are designed to provide protection against assured inflation.

2. "Policies that promote stability of the price level would tend to gain in prestige and to exercise increasing power over the thoughts and actions of both government officials and private citizens." Arthur F. Burns states his belief that, if this price stability amendment had been in effect earlier, "stronger anti-inflationary policies would have been adopted in 1955."

3. Such a policy would require "a reappraisal of the effects of many of our public policies on productivity and competition. Our tariffs, import quotas, agricultural price supports, stockpiles, and multifarm subsidies—all require a new look."

4. Greater attention would be paid to price stability and the policies required to meet this objective in the annual Economic Report of the President and in its evaluation by the Joint Economic Committee.

5. Such a declaration would indicate that we would not follow policies designed to maintain full employment without regard to their inflationary consequences. This would mean that neither labor nor business

could feel assured that the federal monetary or fiscal policy would underwrite their wage or price policies.

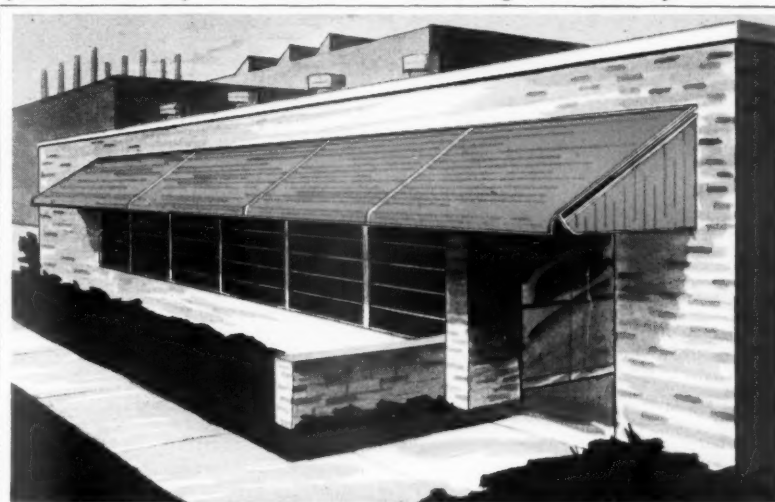
If its limitations are kept in mind, the proposal to amend the Employment Act of 1946 is valuable because it will focus national attention on inflation and its causes. It would help to make the public aware of the dangers that inhere in monetary and fiscal inflation, with their impact upon total demand, and wage inflation, with its impact on costs.

Certainly full awareness of the evil effects of inflation is an indispensable first step to the mobiliza-

tion of public opinion against inflationary policies.

But we need to keep in mind that price stability is not a cure-all.

Stability of prices during the 1920's did not prevent the emergence of the most catastrophic depression in modern history. Stability of prices from 1952 until early 1956 did not prevent the 1954 recession or the 1955-57 boom. General price stability may conceal important disparities in price relationships or in cost-price relationships which in turn can upset the effective functioning of the economy. **END**



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# HERE'S ISSUE IN DEFENSE DEBATE

View of total picture puts wrangle  
over U.S. military strength in focus

**FEAR OF APPROACHING U. S. military disaster at the hands of Russia is being voiced in Washington.**

Critics of the President's defense plans say this country may face complete destruction in the 1960's unless drastic steps are taken now. They charge that the balance of military might has tipped to the Soviet Union, that we have lost the missiles race, and that the Administration lacks a sense of urgency.

The critics offer a solution: Spend more money.

As in all times of stress, warn-

ings of danger come in increasing number and with increasing frequency. These warnings have been boosted greatly by the spectacular successes of the Soviet Union's rocket men.

In an effort to bring the growing alarm over our defense position into perspective, **NATION'S BUSINESS** editors talked with some of the country's leading military authorities, both in and out of the Pentagon. A few interviews were granted on a "strictly for background use only" basis, with promises of non-

attribution. An effort was made to strip the information of political coloration, service rivalry emotionism and sheer sensationalism.

Here's the picture we get:

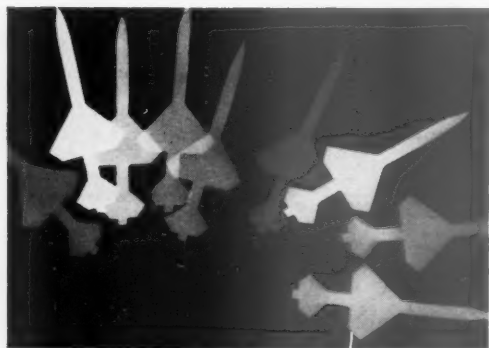
- ▶ The U. S. is not outdistanced by Russia, but the threat is growing.
- ▶ We're traveling two difficult roads of defense.
- ▶ Over-all military strength of a nation is a many-sided thing.
- ▶ Estimates of Russia's actual military strength are hazy.
- ▶ Fat still exists in our defense set-up.

The military budget being debated in Congress today is \$40.9 billion. It is the largest in peacetime—\$145 million higher than the current fiscal year's expenditures and \$1.9 billion higher than fiscal 1958 spending.

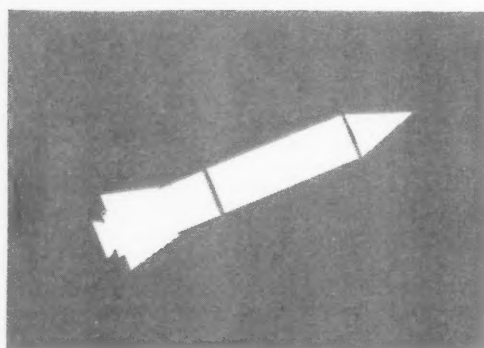
The new military budget averages an expenditure of \$77,800 every minute.

That military men feel they have insufficient funds is a long-time tradition. They always want more.

A top civilian official in the Pentagon said recently: "Look at all the time and energy spent in recent years by Pentagon officials going to Capitol Hill to resist extra money congressmen have wanted to vote for defense—money these officials thought could not be effectively and efficiently spent. Don't you know that, if these men thought the country was in grave danger, as was being charged, they would relax and



**U.S. strength lies in mobile, flexible strategic and tactical power, industrial prowess . . .**



**RUSSIA must depend on long-range missiles—not yet operational—and massive land forces**

let Congress go ahead and appropriate that money?"

Defense costs are continually rising. Complicated weapons systems assure this. The planned chemically fueled B-70 bomber, for instance, will literally be worth more than its weight in gold. Missiles costing more than a million dollars can be fired only once.

Still, prominent critics insist that the Administration lacks a sense of urgency, that not enough money is being spent to keep us abreast of Russia's growing military capability.

A top Pentagon official told NATION'S BUSINESS that in overall military strength, the United States does outdistance Russia. This is because, he said, this country has a superior striking power, more mobility and flexibility. We have bases close to Russia's borders, from which to launch intermediate-range missiles. We have aircraft carriers, and the extremely powerful Strategic Air Command, whose B-52 bombers can deliver an H-bomb anywhere in the world.

According to Gen. Nathan F. Twining, chairman of the Joint Chiefs of Staff, "The Soviets outnumber us in divisions (of soldiers) and submarines. They are probably ahead of us in the development—and I stress the word development—of long-range missiles.

"But," he adds, "relative military strength does not depend on numbers alone or on developmental progress. Considering our superior strategic retaliatory power, our flexible and mobile tactical power, our industrial prowess, and our economic strength, I say in full confidence that we are militarily superior to the Soviet Union today.

"I see no reason why, with concentrated effort and good judgment, we should not be superior in the 1960's as well."

Most of the publicity about the crisis in our military is centered around the intercontinental ballistics missile. The ICBM is often called the ultimate weapon. Military men, however, decline in most instances to accept any weapon as ultimate. They note, for example, that many once thought the use of black powder in war was certainly the ultimate weapon.

What makes the ICBM such a fearsome instrument of war is that it travels at almost 18,000 miles an hour—making it extremely difficult to intercept—to deliver a nuclear

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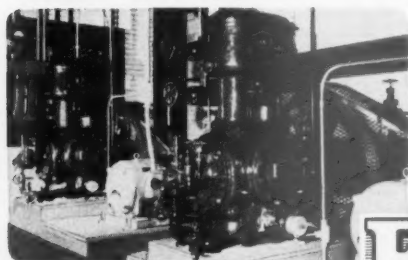
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## DEFENSE DEBATE

*continued*

**We must prepare  
for possible war  
at any time**

warhead on a target halfway around the world. The ICBM is powered only part of the way on its flight, then becomes a free-falling projectile, re-entering the atmosphere at fantastic speeds.

The complexity of the guidance system which enables the missile to hit a city on the other side of the earth, the tremendous burst of fuel necessary for the flight, and the friction problems of re-entry make the missile susceptible to many failures.

This is why development of long-range missiles is a slow, tedious undertaking.

The Russians, most authorities agree, lead the United States in some aspects of this development. But even here, the information becomes cloudy.

For, as one knowledgeable official said, the Russians are ahead of us in perfection of powerful rocket engines (their Lunik testifies to this) but we don't know whether their guidance systems are as sophisticated as our own.

Pentagon officials also say that it is unrealistic to compare the number of missiles Russia plans to build with the number of such weapons that, under existing priority, we will have in a few years.

A country which goes into mass production of ICBM's at this state of the art will be grinding out Model T versions of the weapon.

Defense Secretary Neil H. McElroy has said that the U. S. will not try to match Russia's production of ICBM's, any more than we will try to match their number of men in uniform. Although he has been criticized strongly for this stand, he argues that each country must equip itself to its own needs. He says that our heavy bomber fleet, aircraft carriers and overseas bases more than make up for any lag in production of ICBM's.

When the talk turns from the intercontinental missile to other military hardware, the United States stacks up very well.

Russia, for instance, has no atomic submarine at this time, although the Soviet Union's conventional



submarines outnumber ours. They have no aircraft carriers. Their heavy bomber fleet is not nearly so strong as ours. It gives them no comfort, either, to realize that we have missiles poised at their doorsteps—in Europe and the Far East.

One U. S. government official, regarded as an expert on Russia, told NATION'S BUSINESS that the Reds are far behind us in the development of effective radar.

The main issue in our defense build-up, and often overlooked in the debate over which side is producing the most missiles, is the nature of the strategic problems faced by the U. S. and Russia.

The Russians, in order to strike the heart of the U. S., have to travel at least 5,000 miles, so they must rely on long-range weapons. Since it would take Soviet heavy bombers several hours to reach this country, and because we have an effective radar network, the Russians have chosen to rely on development of long-range missiles. In effect, they banked on leap-frogging the era of the massive fleets of heavy bombers.

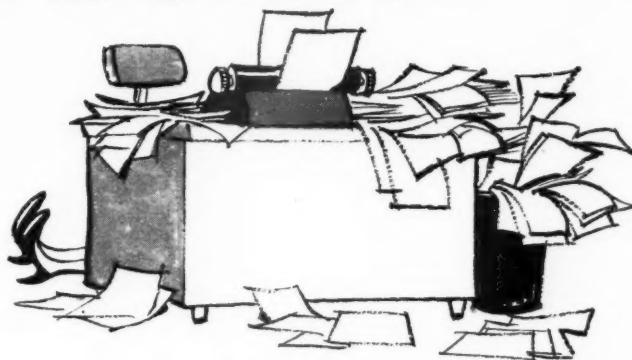
Their strategy would seem to indicate that they felt their best bet lay in having a stockpile of ICBM's that could fly fast and far, knocking the U. S. to its knees before it could retaliate.

Our defenses, then, have had to take this into consideration. Therefore, we have stressed mobility, flexibility, and a massive retaliatory power—from many different directions. We have the aircraft carriers, bombers, missiles, nuclear submarines that can lurk under the ice of the North Pole ready to fire nuclear-loaded missiles. Also important, we have allies that allow us to keep missiles on their land, pointed toward the Sino-Soviet bloc.

By the nature of the cold war, we must prepare to go down two roads of defense: one, if a war should come tomorrow, and two, if war should come in future years. To complicate this, and to make it all the more expensive, we must prepare to fight the so-called limited or brush-fire war, such as Korea, as well as an all-out nuclear holocaust.

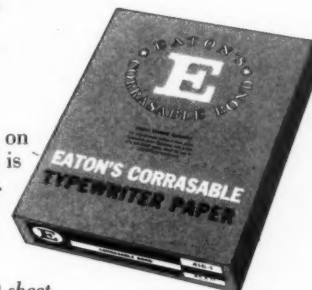
To prepare for the war of tomorrow, we have to keep our strategic bomber fleet on a continual alert. We have to have a combat-ready land and sea force. All this costs billions of dollars. At the same time, we have to spend billions to prepare future weapons—money for research and development, testing facilities and the like. It would be so much cheaper if we knew, for instance, that in 1963 we would be

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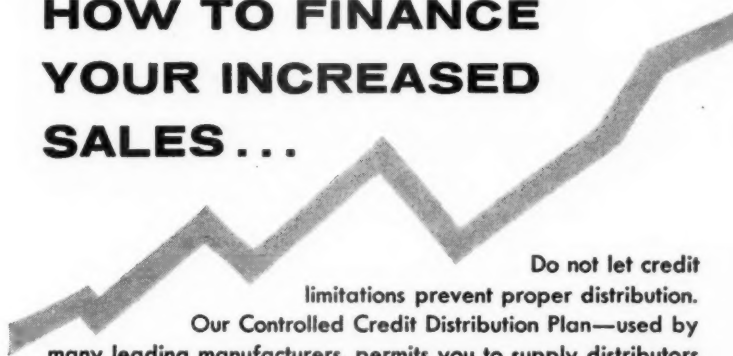
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## DEFENSE NEEDS

*continued*

### We must balance defense needs with our economy

attacked and were preparing for that date. Then we wouldn't have to produce weapons that will be obsolescent by then. A saying around the Pentagon points up this problem: "If the weapon works, it's obsolete."

Strategists feel, too, that an all-out war today would move so swiftly that we would have no time to swing into production as we did in World War II. We must be ready now. That takes money.

If we didn't have to prepare for the limited as well as the nuclear war, we would concentrate on one or the other—at a great tax saving.

Thus defense becomes a matter of calculated risk. The question of how much you can spend without weakening the economy against how much is needed for defense; against what the potential enemy is doing and his probable line of attack.

On the problem of facing so many alternative courses of action, General Twining says:

"It seems obvious to me that we cannot have a particular force which can take care of each of these contingencies. But, within our over-all military structure we must have the means of dealing with the entire spectrum of possible forms of conflict. We must be able to apply these means with degrees of power."

Most military men realize the dilemma of balancing defense needs against economic strength. General Twining says, "In our defense programs we face two major and related problems.

"First is the cost in dollars.

"To guarantee the defense of our country against all possible contingencies, many military people would like more of many things. However . . . our national strength is not purely military. It is a combination of military, economic, political, and moral strengths. None of these can be subordinated. Therefore, our military structure must be built to balance with these other factors. Within the over-all military structure we must provide those capabilities which we consider most important."

General Twining goes on to say

that, "If we neglect our military strength we may find ourselves in the position where our economic strength is powerless to insure our continued freedom. On the other hand, irresponsible spending for military hardware could result in our losing, without ever firing a shot, the very things we now would fight for."

All the criticism about the lack of urgency and spending in missile development—mostly from Democratic members of Congress—takes on a slightly different significance when compared with what missile expert Dr. Wernher von Braun said recently when questioned about whether we were working fast enough to gain control of outer space before the Russians. Dr. von Braun replied:

"... We are working probably as fast as we can at the moment. Whether we can substantially accelerate our program beyond its present pace is hard to tell. The fact that we lost so much time is not due to what happened between 1951 and 1955 or 1958, but the fact that there was no ballistic missile program worth mentioning between the end of the war and approximately 1951, when the ballistic missile program was established in this country."

Sen. Leverett Saltonstall, Massachusetts Republican, summed up our defense policies by saying that they are postulated on two fundamental considerations. The senator said:

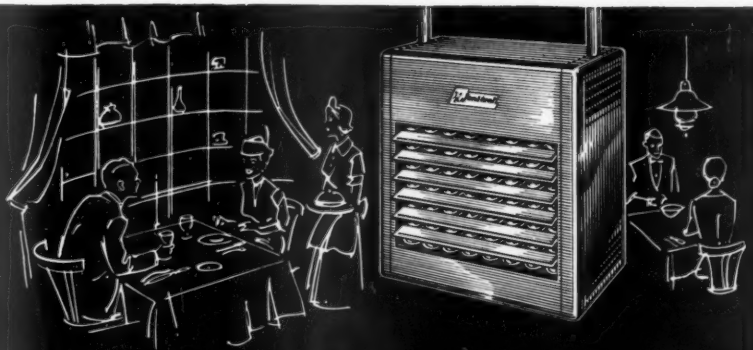
1. We must maintain adequate retaliatory power, not necessarily overwhelming, but sufficient to deter attack by any nation now or in the future.

2. We must build a strong economy, maintain strong conventional forces to back up free nations who are our friends, and maintain our defenses against the political and economic aggression so characteristic of the Soviets.

All this demonstrates that overall security is a many-sided thing, made so because of the nature of our potential enemy. The Russians, experts agree, are looking for a weakness anywhere. General Twinning says: "... The Soviets will use every available means—scientific, economic, psychological, military, and political—to further progress toward their goal of world domination."

In comparing our defense strength with Russia's, one should always keep in mind that estimates of Russia's real strength are hazy.

Maj. General Bernard A. Schriever, director of the USAF Ballistic



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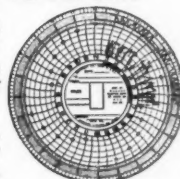
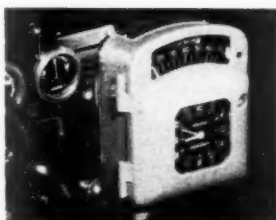


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## DEFENSE DEBATE

continued

Missile Division, expresses uncertainty over Russia's ICBM prowess.

Asked if the Russians have an intercontinental missile that could hit U. S. cities, General Schriever replied: "I wish I knew."

Secretary McElroy labeled as "boasting" the Soviet statements that they now have missiles with a capability of hitting any point on earth.

At the same time, Democratic Sen. Stuart Symington charged that, in three or four years, Russia will have more than four times as many ICBM's as the U. S.

Even though the consensus among authorities is that we lead in overall military strength—while the Russians may be ahead in certain aspects of missile development—there is still much fat in our military set-up that budget watchers believe could be cut without curbing our strength. Such trimming would fit us with a more effective war machine.

Here are some of the soft spots in our defense spending as seen by the National Defense Committee of the U. S. Chamber of Commerce:

► Insufficient use has been made of the vast authority of the Defense Reorganization Act of 1958 to eliminate unnecessary overlapping, duplication and waste in support-type activities, such as procurement, supply, medical, legal.

► Plans to close or curtail unnecessary business and commercial-type activities have ground to a halt.

► The Defense Department is still spending \$31 million annually to maintain \$1.5 billion of industrial facilities of dubious usefulness.

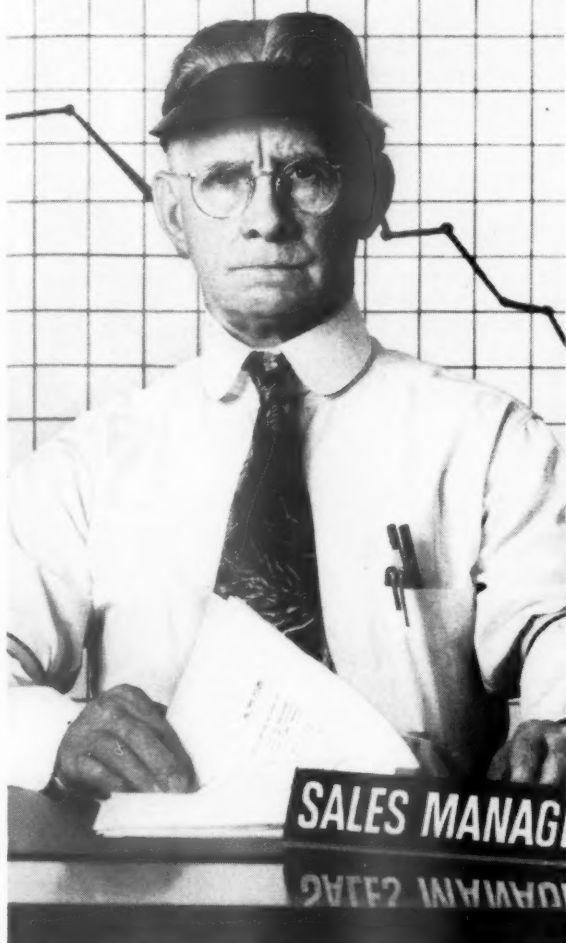
Some observers believe that Congress, rather than spending so much energy arguing about missiles, should be spending more time trying to streamline and make more effective the resources already at hand.

For instance, Congress could, according to the Chamber, review and repeal as many as possible of the 30-odd laws that require the use of defense dollars to achieve unrelated social and economic objectives, such as the Buy-American Act, the Walsh-Healey Act, the Davis-Bacon Act, and many others. The Chamber says that, individually, these laws are not bad, but their cumulative effect is to hamper efficient procurement, create delays, increase costs.

END



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# SOVIET BOASTS HELP SPENDERS

BY A SEEMINGLY innocent pronouncement, Russia has put the apostles of federal spending more deeply in her debt. The Soviet merely announced that the Red economy is expected to grow at the rate of 7.4 per cent a year.

Some politicians say our own economy is growing only 1.3 per cent a year. Union labor says two per cent. Economists who aren't trying to prove anything say 3.5.

In any case, the Russian margin is a convenient podium from which to raise panic shrieks that "we have to catch up."

Proposed as methods which would enable us to close the gap are federal aid to depressed areas, higher unemployment compensation benefits, greater defense expenditures, federal intervention in education, housing subsidies and other spending measures.

All of these schemes have been offered at other times as certain cures for other ills, real or fancied. Presuming that some of them would have met the needs for which they were first proposed as remedies, they would not have the effects claimed for them now.

This might lead a cynic to believe either that the sponsor's real interest is in the adoption of his scheme rather than catching Russia, or that he doesn't understand why Russia is able to gain so fast while we increase more slowly.

If the need to match or surpass Russia's 7.4 per cent gain is immediately urgent, the method is simple enough:

All that needs doing is to get the American people to live as the Russian people live.

To verify this, one has only to look at our own economic history. When our economy was about where Russia stands today we grew considerably faster than she is growing now. Taking steel production—about which Russia boasts today—our production increased 14 per cent per year from 1900 to 1905; 7.5 per cent from 1905 through 1907. Today, when steel output is sufficient for our needs, there is little need for such expansion.

Now the steel once used to expand the industry goes into bathtubs, automobiles, refrigerators and a thousand other things which do not increase our rate of productive growth.

Money which goes into new homes, vacation trips, television sets, modern kitchens, pleas-

ure boats, new furniture, books—all the attributes of gracious living that Americans enjoy—has the same effect.

Russia denies these comforts to her people and puts her money into productive machinery. With a disciplined peasant population willing to work long hours she can do this.

Doing it in this country would require considerable change in national attitudes. Would union labor ask wage increases if the goods and services which higher wages now buy were not available because the money which produces them was going into productive machinery? Would a 36 hour workweek be desirable if the things which add pleasure to leisure were denied us?

For that matter, what purpose would the extra production serve if we didn't put it into civilian goods? Surely we couldn't spend all of it sensibly for defense.

Even if we did these things, our rate of production probably would not grow at the 40 per cent rate that it reached in 1870 to 1875 when the country was new and the need for new things was great. In our more mature economy much of the new machinery is used to replace worn-out plant rather than for expansion.

Russian figures are already beginning to reflect this phenomenon. They are also reflecting the fact that operating a more sophisticated economy requires more sophisticated people. Unlike the peasants, these people demand that their efforts serve to bring them better houses, better food, and a measure of human dignity.

Instead of the 7.4 per cent with which the spenders are trying to panic us today, Russia's growth in 1955 was 13 per cent. Our own was about where it is now. Nobody was excited then.

Nobody needs to be excited now.

Russia's rate of growth has dropped by almost half in less than five years. Even the present rate requires increasing numbers of skilled and educated people, thus multiplying the pressure for a higher standard of living—the undeviating history of industrialized nations.

So, by her own efforts, Russia is lowering her production gains. We have only to maintain our own to close the gap.

This we can't do if we allow the creators of synthetic panic to spend us into bankruptcy.



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